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I appreciate the invitation to address the New England Conference of Public Utility Commissioners. This will be the first time that a Canadian Minister of the Crown will be invited to address the conference. It is a great honour and a great pleasure. I am sure that the conference will be a most successful one. I am sure that the conference will be a most successful one. I am sure that the conference will be a most successful one.

The fact that we are virtually alone by side by side in the energy field — the opportunity to share our views and our talents for mutual, long-term benefit.

Notes for an Address
by the Honourable Marc Lalonde
Minister of Energy, Mines and Resources, Canada
to the
New England Conference of Public Utility Commissioners
Rockport, Maine
June 23, 1982

Under the National Energy Program of October 1980, the Government of Canada established three fundamental goals as the foundation of our energy management policies. We will share these goals with you, opportunity and fairness.

Energy means security of supply. Specifically, it means an adequate and reliable supply of energy.

As regulators, you will also be concerned with the issue of fairness in energy policy. Fairness in energy policy means that all Canadians should have access to energy at a reasonable price. It means that all Canadians should have access to energy at a reasonable price. It means that all Canadians should have access to energy at a reasonable price.



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I appreciate the invitation to address the New England Conference of Public Utilities Commissioners. This part of the United States is particularly favoured by Canadians from the central and eastern provinces, both as a tourist destination and a close neighbour. We have a lot in common, including historic English and French cultures. Travelling in New England often reminds me of the countryside around my home in Quebec.

The fact that we live virtually side by side is basic to the opportunity that we share in the energy field -- the opportunity to use our resources and our talents for mutual, long-term benefit.

I know from personal experience that the complexities of decision-making in the energy field have grown enormously in recent years, increasing the weight of the responsibility that you as regulators must carry. Fundamental shifts in supply, demand and pricing trends have occurred with very little warning. Later, I will suggest some basic guide-lines for the regulatory process in these difficult times, particularly in relation to our shared energy interests.

First, however, I would like to talk about the principles that have guided the Government of Canada in facing its responsibility to manage Canada's energy situation in the best interests of all Canadians.

Under the National Energy Program of October 1980, the Government of Canada established three fundamental goals as the foundation of our energy management policies. We call these goals security, opportunity and fairness.

Security means security of energy supply. Specifically, it means an end to reliance on imported oil by 1990.

As regulators, you will also be familiar with the goal of fairness in energy policy, particularly as it applies to consumers. Fair pricing for consumers is fundamental to our energy policies, and we have established a national blended oil price which treats consumers equally whether they use domestic oil or imported oil. We have also ensured that natural gas is attractively priced to assist in off-oil conversion. Gas and electricity have been the most popular substitutes for oil heating in Canada.

Our goal of opportunity for Canadians to participate more fully in the petroleum industry has a straightforward justification:

Canadians are overwhelmingly convinced that a successful energy future must include greater domestic participation in the petroleum industry. I think Americans would be too if they found themselves in a similar situation.

Our efforts in this regard are working, largely because of private sector initiatives, including, I am pleased to say, a recent, rapid increase in partnership ventures among Canadian and foreign-owned petroleum companies.

Perhaps most important of all, the incentive for all investors, Canadian or foreign, to participate in the petroleum industry in Canada, is on a par with anything available around the world.

In short, foreign capital is not only welcomed in Canada's energy sector, it continues to be encouraged by the prospect of attractive returns based on a generous incentive system and some extremely favourable prospects for major new supply developments.

Aggressive energy supply development in Canada is fundamental to our desire to expand our capacity to supply energy to both domestic and export markets over the long term. And this brings me to electricity and natural gas, the major candidates for mutually advantageous new energy trade between Canada and the U.S. in the years ahead.

Exchanges of electricity between Canada and the United States go back to the very early days when electricity began to play an important role in the industrial and social development of our two countries. The last few years have seen a substantial increase in net exports from Canada, and in 1981 net exports reached nine per cent of total Canadian generation. While significant, these figures do not signal an extraordinary degree of dependence by the U.S. on Canadian sources of electricity, representing only about one per cent of total U.S. electricity supply, and only a slightly higher share in particular regions. A large part of the exports are short term or interruptible contracts, and thus do not reflect a long-term commitment on either seller or purchaser.

The historical record of electricity trade between Canada and the United States shows a remarkable stability in the relationships that have been built up. It is a stability based on scrupulous honouring of commitments. In one notable case where a change was made in a contractual arrangement -- concerning the export of oil-fired power from Coleson Cove in

New Brunswick -- the change was made only in a manner that fully satisfied both parties to the deal. Canada has made every effort to preserve its status as a reliable supplier of electricity to the United States.

The various types of co-operative exchanges that have occurred have enhanced, rather than threatened, economic activity in each country, and they provide a strong base for expanded future co-operation in a wide range of electricity arrangements. The future will undoubtedly bring "more of the same". There are, however, some significantly different opportunities for exchange. Starting from west to east, we have identified opportunities for the construction of coal-fuelled generation plants in Alberta; the possible exploitation of hydro resources in Manitoba, Quebec and in Labrador several years earlier than required for domestic needs; the construction of nuclear units in New Brunswick; and the building of tidal generation facilities in Nova Scotia.

For any of these options to be developed, they would involve firm long-term contracts to support the major capital investment in generation facilities, as well as the substantial investment commitment to related transmission needs. It is likely that several of these projects would require firm contracts and related export licenses extending above the 11 to 12 years which have been usual to date. Innovative financing may be needed to ensure that these projects are best adapted to the financial requirements of both buyer and seller.

With respect to nuclear-generated electricity, I want to emphasize the reliability of our CANDU nuclear system. The eight CANDU units in Ontario's, Pickering and Bruce stations, which produce about one-third of the province's electrical requirements, have consistently set world records for both performance and low cost.

One of the most attractive advantages of the nuclear option is, of course, that in contrast to hydro-electric generation potential, it largely removes limits of resource availability for electrical generating capacity. The Government of Canada is well aware of that advantage, and is ready and willing to consider active encouragement for the design and construction of nuclear power generating plants partially dedicated to export sales of electricity.

I should note that the National Energy Board has approved the export of power from the Lepreau Nuclear Plant in New Brunswick. Given a desire on the part of New Brunswickers to expand the nuclear capacity in the province and commercially appropriate power contracts with U.S. customers, the Canadian government is ready to support the building of a second CANDU reactor in New Brunswick.

How do both existing and projected exports fit into the framework of Canada's domestic energy policy? Substitution of electricity for oil will help to achieve our oil self-sufficiency objective, and this is being encouraged. We believe that we can satisfy Canada's domestic needs and provide for exports where profitable opportunities can be identified. For instance, we believe that Canadian electricity can play an especially useful role in reducing the amount of electricity generated with oil in this region. However, even with an expanded market for exports, the total contribution that Canada can make to U.S. requirements is still quite modest.

While prospects are good for mutually beneficial electricity trade expansion, there are challenges. The environmental impact of energy development is a matter of increasing sensitivity in both our countries. Some feel that the environmental impact from energy exports, including electricity, should be entirely avoided simply by not exporting any energy. This was evident in hearings into the application for approval of electricity export from Ontario-Hydro to General Public Utilities, before the U.S. utility decided not to proceed with the project.

The environmental factor in this export was one that involved considerable debate during the NEB hearing, and represented an important opportunity to set the environmental record straight. Atmospheric emissions of acid gases are a special concern in eastern Canada and the United States because of sensitive receptor areas; and international agreement is being sought to achieve balanced reduction in acid emissions from utility and other sources. Another environmental issue is the disposal of waste fuels and the dismantling costs and problems of nuclear plants, where some or all of the output might be devoted to an export market. The approval of exports from the Point Lepreau nuclear plant in New Brunswick has drawn some criticism in this respect. It is one of the many responsibilities of regulators to assess these potential costs against the major benefits that can be created in both countries.

As I see it, regulatory bodies are being faced with increasingly complex challenges to maximize benefits to customers of the regulated industries. A simplistic, and surely outdated, concept of regulation is that it is totally concerned with preventing the regulated industry from abusing its monopoly position. Of course, there will always be this preventive feature of responsible regulation. Increasingly, however, the regulator is asked to encourage and facilitate the application of new technologies and innovative business methods that will benefit both supplier and user. In no aspect of our society's services is innovation more critical than in the field of energy.

Innovation will be required on financial structures and financing methods to deal with export-oriented projects. The bottom line is that to achieve success in mutually-beneficial opportunities, there must be close and dedicated involvement of all of the groups represented here today, especially for expanded trade involving long-term, firm power facilities yet to be built. We believe the challenge can be met by all concerned.

Regulatory procedures must not only encourage innovation, but must reach decisions without unacceptable delays. Where co-operative enterprises between our two countries make sense, we will do our best in Canada to avoid regulatory delay or inflexibility. I am sure you will meet your responsibility to your public in an equally imaginative way. The potential benefits on both sides of the border are too important to miss.

The primary role of identifying and negotiating exchange opportunities must lie with executives of the utilities concerned. Their efforts can best be supported if those of us involved with government policy-making, with the regulatory agencies, and with the financial resources provide the clearest, most easily understood framework and rapid response on individual cases. We must be able to adapt our positions intelligently on a case-by-case basis to evolving needs. We want to see good proposals going ahead in a way that shares the benefits appropriately -- in relation to the risks of each side. We recognize the important role of the regulators in making some exceedingly challenging judgments, and making them in a timely way.

I would like to turn now to the subject of natural gas. Exports of Canadian natural gas to the United States have had a brief, but quite spectacular, history since the early 1950s. From a total of 110 billion cubic feet exported in 1960, natural gas exports rose to 790 billion cubic feet in just 20 years, and now stand at 760 billion. However, due to softness in a large part of the U.S. market, actual exports in 1981 were only 57 per cent of the maximum authorized level.

The New England States received about 4.5 billion cubic feet, or less than one per cent of our total exports, last year. As reliance on natural gas increases in New England, it is clear that there is potential for significant growth in these volumes. The Government of Canada is confident that this can be achieved before long.

A number of important steps have been taken toward the goal of maximizing authorized gas exports through sales to new markets in the United States. For instance, Canada's National

Energy Board has recently revised its formula for calculating the amount of gas that is surplus to Canadian needs. The new procedures should overcome the problem that arises when gas destined for a specific area becomes "trapped" if, for some reason, that market cannot absorb the supply.

The overall effect of the new NEB approach will be to provide assured protection for Canadian needs, while opening up new opportunities for gas export.

As a further stage of its Gas Export Omnibus Hearing, the NEB will next month examine the applications that have been made for new exports. There are 28 applications for review -- 15 for new export licences and 13 for extensions of existing licences. Two of these applications are for exports directly to New England markets, and several others will also indirectly involve service to this area.

Because the total amount applied for -- 25 trillion cubic feet -- exceeds considerably the anticipated level of gas surplus, the NEB will be reviewing each application very carefully to ascertain which export projects will be in Canada's best interests.

With reference to these export applications, you may know that Pan-Alberta Gas has now decided to advance only its application for exports to Algonquin at Niagara Falls, Ontario, rather than at St. Stephen, N.B. I realize this decision is not in accord with your recent resolution supporting the originally proposed St. Stephen route. However, in view of the fact that the TQ&M pipeline is now not scheduled for completion until 1986, Pan-Alberta apparently decided it was preferable to use the Niagara Falls route to ensure that service to New England could begin on schedule in 1984.

It should be remembered that Pan-Alberta may apply to the NEB to change the export point when the construction schedule for the St. Stephen lateral is firmly determined.

In its final phase, the Board will consider supply, demand and surplus. We expect the Board will complete its hearings and make recommendations to the Government with respect to the issuance of new export licences by the end of this year.

It would not be realistic, of course, to expect a dramatic increase in Canadian gas sales in the United States over the medium term. The total U.S. gas market is not expected to grow rapidly. The lengthy decline in U.S. gas reserves appears to have been stopped, and only time will tell whether that success can be maintained.

Among other factors creating uncertainty about future gas export prospects is the extent and impact of regulation at the state level -- something that is impossible to predict. I would urge you as regulators to take the broadest possible view of the benefits of Canadian natural gas to U.S. consumers, in much the same vein as I have urged consideration for our electricity in your markets. As always, the standard of mutual benefit should be applied, in a context of flexible and imaginative policy-making. For instance, the Government of Canada takes the view that natural gas is a valuable commodity whose long-term worth should be determined by the price of oil. However, the export price has been set somewhat below the substitution value for oil over the past year, and the Government will continue to show flexibility in export pricing.

One of the basic attractions of Canadian natural gas is its long-term supply prospects. We have had an extremely successful natural gas industry which is currently hampered not by any inability to find gas, but by the difficulty in marketing it.

In the past few years since the Government of Canada became actively involved in encouraging the extension of pipeline facilities to move Alberta gas to the easterly parts of Canada, a substantial new gas supply option has developed near Sable Island, off Nova Scotia. There is now a good possibility that the west-to-east, trans-continental gas pipeline will, in fact, move gas from east to west.

There may be as much as 3.4 trillion cubic feet of gas off Sable Island. Production could start before the end of this decade. The existence of this new source of supply should be of special interest to the New England States. The recent Canada-Nova Scotia agreement on offshore resource management will, I am confident, increase the pace of development in this area. We are hopeful of even more exploration success off the east coast of Canada as more and more drilling is carried out under our vigorous frontier and offshore drilling policies. While in 1981, only two rigs were drilling offshore Nova Scotia, we expect that there will be at least five rigs in operation this year in those waters.

Recent experience has tended to confirm the longer-term outlook that Canadian natural gas will be discovered in roughly twice the quantities of oil in energy equivalent terms. Canada's long-term supply capability is clearly impressive, and it provides a strong base for confidence in our long-term ability to be a secure source of natural gas.

In conclusion, I would like to underline the idea that our responsibilities as energy regulators can be guided by basic principles. The goals of security, opportunity and fairness serve quite well in this respect.

I have suggested that in terms of security of supply, Canadian natural gas and electricity have a major attraction for the U.S. market. I have also tried to make clear that secure long-term supplies of Canadian energy can be provided, over time, in a flexible, innovative regulatory environment that accommodates the concept of fairness to both sides of the transactions in every respect. And I believe we have only begun to recognize great new opportunities for mutually advantageous energy trade.

Although our two countries differ in their approaches to energy policy, we continue to recognize the mutual benefits to be derived from co-operation. In this context, electricity and natural gas continue to be among the most positive aspects of our energy relationship. We have a strong base of productive co-operation on which to build for the future.

STATEMENT

BY THE HONOURABLE MARC LALONDE

MINISTER OF ENERGY, MINES AND RESOURCES

TO THE

SENATE STANDING COMMITTEE ON

BANKING, TRADE AND COMMERCE

JUNE 28, 1982

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Mr. Chairman, Honourable Senators,

I am pleased to have the opportunity today to address the Senate Standing Committee on Banking, Trade and Commerce on the energy legislation now before you, Bills C-101 to C-108. Having appeared here recently to testify on Bill C-48, the Canada Oil and Gas Act, I return today forewarned of the methodical way in which Senators examine their witnesses' testimony.

As you know, these energy bills were previously considered in the House Standing Committee on Energy Legislation, and many witnesses appeared before that Committee. Many amendments were considered, and 50 were accepted in Committee and at report stage. The most significant amendments include: The right to judicial review of certain determinations of the Minister under Bill C-104; more restrictive definition of oil product in Bills C-103, C-106 and C-108; a new negative/affirmative resolution procedure; and a six-months delay in the coming into force of the provisions affecting power lines in Bill C-108. In addition, many technical amendments were made to clarify the meaning of certain provisions or to remove inconsistencies.

Your Committee has examined this comprehensive energy legislation with the assistance of counsel whom I commend for their diligence. The Dene Nation, the Independent Petroleum Association of Canada, the Canadian Life and Health Insurance Association, the Coal Association of Canada and the Air Transport Association of Canada have also appeared to contribute to your study.

During your intense deliberations on this energy legislation, your Committee has raised a number of issues. Some concerns appear to have been fully addressed by officials of my Department who appeared before you last week. Nevertheless, some outstanding matters remain for us to clarify or resolve today.

Mr. Chairman, I would now like to deal with the points that were raised in your Committee on each Bill.

On Bill C-102, Senators raised the question of accountability of the energy Crown corporations to be established. Bill C-102 goes beyond the existing laws inasmuch as it would make the creation of a new Crown corporation in the field of energy subject to the scrutiny of Parliament, unlike, for example, the Atomic Energy Control Act. Once created, the new Crown corporations would be subject to the same controls that apply to other Crown corporations. In that respect I can assure Honourable Senators that corporations created under the authority of Bill C-102 will be added to the appropriate schedule of the Financial Administration Act. I considered additional control of these corporations, and I came to the conclusion that since legislation applicable generally to Crown corporations is contemplated, this Bill was not an appropriate vehicle to resolve those important issues.

Mr. Chairman, when I referred to the provision that would make the creation of new Crown corporations under Bill C-102 subject to Parliament's scrutiny, I was, of course, alluding to the negative/affirmative resolution procedure provided for in that Bill. There is also, I should add, a similar procedure in Bill C-103

applicable to the spending of money from the Canadian ownership account. When drafting these provisions, an attempt was made to approximate the normal legislative process applicable to a bill introduced in the House of Commons.

I think Senators will find these provisions to be a considerable improvement to the previous proposal which raised considerable but differing concerns both in the House and in the Senate.

Some Honourable Senators have rightly noted that while the House of Commons and the Senate are accorded six sitting days to consider a negative resolution; in the case of an affirmative resolution the Senate is given five days whereas the House would have six days. There is no justification for this. Therefore, I am prepared to have the necessary amendment made to correct this inconsistency at the earliest opportunity, most likely through the Miscellaneous Statute Law Amendment process.

A concern has been expressed by the Coal Association with respect to the definition of oil product in Bills C-103, C-106 and C-108. I would like to repeat here, Mr. Chairman, that coal itself is specifically excluded in the definitions of oil or oil product in Bills C-103, C-106 and C-108. It is explicitly provided that the word "hydrocarbon" does not include coal.

As far as products derived from the processing of coal are concerned, they may be subject to Bills C-103 and C-108 if the Governor in Council designates a particular product. What we have in mind, for instance, is the possible designation of a product such as methanol, that is a source of energy. In order, however, to alleviate any concerns the coal industry may have with respect to future designations of products obtained from the processing of coal, I am committing my Department to consult the coal industry before initiating any action to designate such a product as an oil product.

In respect of Bill C-106, Honourable Senators will have noted that the Bill may be extended to monitoring of the coal industry in addition to the oil and gas industry.

On Bill C-103, the Air Transport Association of Canada has asked that the Transportation Fuel Compensation Recovery Charge levied on exported aviation fuel between May of 1981 and January of 1982 be refunded. Senators will recall that it was previously decided to make refunds to foreign carriers.

Having carefully reviewed their argument and the circumstances of the Canadian aviation industry, and taking into account concerns expressed in this Committee and in the House Standing Committee on Energy Legislation, as well as in the Liberal caucus, the Government has reviewed its position. Following that review the Government has decided to accede to requests of the Air Transport Association of Canada and to treat Canadian air carriers in the same manner as foreign carriers. No amendment to Bill C-103 is required to effect any such refund.

Concerns were raised by the Dene Nation in the context of Bill C-104. The Government has demonstrated its commitment to ensure that the effects of resource development do not conflict with the needs of Northerners. I believe the proper vehicle for northern and native participation lies in the Canada Oil and Gas Act, where provision is made for consultation, native equity participation, and affirmative action for disadvantaged groups.

Concerns were expressed in your Committee relating to the proposed amendments to the Canada Business Corporations Act contained in Bill C-105. Mr. Chairman, these concerns may, to a great extent, have resulted from a misunderstanding of the scope of the proposed amendments. Unless I am mistaken, my Department's General Counsel was able to resolve most of these difficulties.

As I understand the representations made before your Committee by the Canadian Life and Health Insurance Companies Association, their concerns were as follows: if a foreign insurance company invests the funds of its Canadian policy holders in the shares of a corporation incorporated under the Canada Business Corporations Act, that latter corporation would have the power to impose an ownership constraint on those shares which could force the insurance company to divest itself of its shares at an inopportune time. Such a statement, Mr. Chairman, is based on certain assumptions, which, with all due respect, reflect a misunderstanding of the amendments proposed in Bill C-105.

The first assumption is that Bill C-105 would authorize a corporation to impose constraints on shares in a retroactive manner. This is not so, Mr. Chairman; the change we have made to these amendments following the introduction of Bill C-94 was expressly designed to ensure that there would be no retroactive application of the constraints permitted under the proposed paragraph 168(1)(c) to shares that had not already been constrained under that paragraph.

Another assumption is that a corporation which wants to constrain its shares, in order to qualify for certain benefits under a prescribed statute, could somehow force a shareholder who has unconstrained shares to sell his shares. Again, this is not so. A corporation could only sell the shares of a shareholder who owns constrained shares and who did not comply with the constraint.

The last assumption appears to be that a company which is not considered to be Canadian under the Canada Business Corporations Act could somehow be penalized as a result of these amendments. Mr. Chairman, the purpose of these amendments is to assist a company which wants to qualify to obtain a benefit, under a prescribed statute such as the Canada Oil and Gas Act or the proposed Petroleum Incentives Program Act, which is conditional upon having a certain level of Canadian ownership or control as those terms are defined in the Canadian Ownership and Control Determination Act. In that context I believe that one of my officials gave your Committee a detailed explanation of the calculation of the Canadian control and ownership of insurance companies which recognizes the special circumstances of insurance companies.

Another concern was that the amendments are too broad since they authorize constraints for the purpose of qualifying for benefits under any law that may be prescribed whether it covers benefits related to energy or not. Mr. Chairman, it is the express policy of the Government that these provisions will only be available to the energy sector. At a later time, to eliminate any residual concern, I will undertake to review the wording of clause 168(1)(c) in order to determine whether or not it would be appropriate to specify in the legislation the specific statutes.

With respect to Bill C-106, members of the Committee have questioned clause 36 which would allow the Minister to divulge confidential information he obtained under that Act when he believes it is in the public interest to do so. The reason for their concern was that only the Minister and no one else would decide if it

is in the public interest to divulge information. Mr. Chairman, there is no doubt that the Minister would be accountable for his decision before the Parliament of Canada, which should be the best judge of what is in the public interest in the particular circumstances. To demonstrate my belief that Parliament is best able to safeguard the public interest, should I invoke the authority available under Clause 36, I will offer to return to this committee to account for my action.

Finally, on Bill C-107, some Senators mentioned that clause 38, which provides for two Ministers to report on a yearly basis to Parliament, raised questions from the point of view of answerability in Parliament. Once the report has been signed by the two Ministers, both having concurred in it, both Ministers would, of course, be answerable. With respect to the obligation to lay the report "as soon as possible" after the end of the year, I am told that similar clauses appear in other statutes such as the Motor Vehicle Tire Safety Act, the Motor Vehicle Safety Act and the Transportation of Dangerous Goods Act. However, if it is still a concern for the members of the Committee, I would be prepared to ask the Department of Justice whether it would be possible to amend clause 38, possibly through a Miscellaneous Statute Law Amendment Act, in order to provide that the report shall be prepared within three months after the end of the year and tabled within the next 15 sitting days after its completion.

Finally, Senators will want to note that clauses similar to clause 31, which deal with offences committed by employees or agents, are found in at least 24 federal statutes from 1970 on.

Senators, I believe these clarifications and commitments should serve to respond to the concerns you have raised. I would like to compliment the manner in which your Committee has dealt with these bills with great dispatch. After an unsettling period of change, the petroleum industry deserves an environment of political and regulatory certainty and stability. More importantly, the more aggressive and ambitious Canadian sector of the industry has acted on the expectation of receiving powerful petroleum incentive payments in the near future. As you know, Bill C-104 authorizes the expenditure of 1.970 billion in petroleum incentive payments. The payments are urgently required to complete the National Energy Program fiscal regime, which is structured to reward exploration and production activity. With your support, Senators, we are eager to initiate payment as soon as possible.

I would welcome questions, Mr. Chairman.

NOTES FOR AN ADDRESS
BY THE HONOURABLE MARC LALONDE
MINISTER OF ENERGY, MINES AND RESOURCES
TO THE
NATIONAL GOVERNORS ASSOCIATION
AFTON, OKLAHOMA

August 9, 1982

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I am delighted to be with you today for this important gathering. We in Canada often speak of the rich diversity of our own nation, with its wide range of cultural, geographic, economic, and, of course, political interests. This conference probably represents the impressive strength and range of your country's diversity as well as any that could be imagined. And I might add that seeing so many governors in one room makes me feel a little easier about the challenge of running a country that can have only 10 provincial premiers in the same room.

In the energy sector, electricity trade between Canada and the United States is one of the most striking examples of the close cooperation that can exist between our two countries and of the attractive prospects for exchanges which, while mutually beneficial, will reflect the respect which good neighbours must have for each other.

Exchanges of electricity between Canada and the United States go back to the very early days when electricity began to play an important role in the industrial and social development of our two countries. As early as 1900, generating stations were built in Canada in the Niagara region to supply customers in the United States. These small generating plants have been succeeded by extensive, complex systems that enable Canadian suppliers to meet their commitments to American customers.

In those initial exchanges in the early part of the century and in negotiations since then, Canada and the United States, like good neighbours, were seeking mutual benefits. The nature of the exchanges has varied considerably over the years; at times Canada imported more electricity from the United States than it exported. Then in the 1960s Canada's electricity exports began to substantially exceed its imports. Although some might be concerned about this imbalance in exchanges, we, in Canada, believe that the spirit that marked the early days of electricity trade between our two countries still prevails. Just as Canada has an interest in selling electric power to the United States, so the United States benefits from buying Canadian electricity. The figures on these exchanges speak for themselves. During the 1950s, Canadian electric power exports to the United States represented from three to five per cent of total Canadian generation. Since 1977, Canadian net electric power sales have doubled, rising from 17.4 million kilowatt hours in 1977 to 34 million kilowatt hours in 1981. Last year, Canadian exports reached nine per cent of total Canadian generation.

Despite these figures, the United States is not on the way to becoming dependent on Canadian electricity. Last year, electric power imports from Canada accounted for only about one per cent of total American consumption. The proportion is, of course, higher in certain areas, but in almost all cases Canadian electricity was imported under short-term or interruptible contracts. Thus, neither the seller nor the buyer was bound by long-term commitments.

Although Canadian exports of electric power have so far been under short-term or interruptible contracts, trade in electricity between Canada and the United States has always shown remarkable stability. The scrupulous honouring of commitments, on both sides, has made it possible to maintain harmonious relations. Canada, you will agree, fully deserves its reputation as a reliable supplier of electric energy.

There has been only one instance — the oil-fired Coleson Cove Plant in New Brunswick — in which it was necessary to make changes in existing contracts. In that case negotiations ensured that the changes were satisfactory to both parties.

The Government of Canada has a policy of seeing that Canadian needs are met before authorization is given for the export of electricity or any other form of energy. To those who might think that this policy jeopardizes export contracts it should be pointed out that this policy, administered by the National Energy Board, has been in effect for 20 years now. The policy of giving priority to Canadian needs has never prevented American customers from obtaining from Canadian sources the electric power that they needed. Over the past few years there have been many changes in the Canadian energy scene, but the rules of the game have not changed for Canadian electricity exports.

Canada has always been, and still is, willing to sell electricity to the United States. As in the past, Canada is willing to negotiate contracts for the sale of its surplus generation and, as always, it is committed to honouring scrupulously the terms of such contracts.

Historically, the majority of buyers of Canadian electricity have been in border areas, but recent advances in electric power transmission technology now make it possible to export energy to much more distant destinations. For example, there is a proposal to export electricity from Manitoba through the Dakotas to Nebraska. Earlier I mentioned mutual advantages, and Canada certainly reaps financial benefits from the sale of its electricity. Last year, Canadian electricity exports totalled more than \$1.1 billion.

What are the benefits for the United States? As I said previously, Canada has always shown itself to be a reliable supplier that honours its commitments. While that is not an inconsiderable advantage, there is more. Almost all of the Canadian electricity exported to the United States over the past few years has been produced by sources other than imported oil. Last year, only six per cent of the electricity sold to the United States came from generators fired by imported oil. More than half, or 58 per cent, of that energy was hydro-generated.

The United States, like Canada, aims to become less dependent on imported oil, especially for the generation of electricity, so that recourse to Canadian electricity could be of assistance.

In addition to being a reliable supplier, Canada offers secure sources of electricity. For American companies, which must use imported oil to generate electricity, the use of Canadian sources can also provide considerable savings. Recent events in the Middle East can only create new concern about the security of oil supplies.

As I mentioned earlier, up to now the United States has been importing Canadian electricity under short-term and medium-term, interruptible contracts. The export contracts approved by the National Energy Board have been for periods of up to 11 to 12 years, although the law permits contracts of up to 25 years.

There is now an opportunity, which I am prepared to support and encourage, for electricity exchanges between Canada and the United States to enter a new phase, in the same spirit of cooperation, mutual respect and mutual advantage.

In its National Energy Program, the Government of Canada has established a number of objectives to achieve energy security. One of the goals of this policy is to ensure that by 1990 Canada is completely self-sufficient in energy, including oil. Electrical energy has an important role to play in contributing to this goal.

Although oil self-sufficiency is an important goal of the National Energy Program, which will require an expanded use of electricity, we are confident that we can develop additional sources that can support additional exports for long periods. Once again, because of our historical relationship, this can mean significant benefits for our good neighbours to the south. Currently, the National Energy Board has the authority to approve electrical export contracts of up to 25 years duration.

Up to now domestic needs have dictated the rate at which electrical generation capacity has been increased. Now Canada is interested in accelerating the rate of its capacity development in order to meet the needs of its U.S. customers. In return for its commitment at the supply level, Canada asks its customers to provide guarantees at the purchase level. I think it is obvious that both Canada and the United States can benefit from such an arrangement.

Canadian producers and American buyers need not be afraid to be innovative in negotiating these new agreements, especially when it comes to financing. These arrangements will have to take into account the substantial investments that will be required to build new generating facilities or hydro-electric dams. The history of electrical trade between our two countries convinces me that it should be possible to reach agreements that take into account both the means of the buyer and the needs of the seller.

The National Energy Board has just approved the export of electricity from the Point Lepreau Nuclear Plant in New Brunswick. If the people of that province so wish, the Government of Canada is willing, as part of this new stage in exchanges between our two countries, to support the construction of a new nuclear generating station. Most of its production would be destined for the American market.

While I'm on the subject of nuclear plants, I would like to take this opportunity to extol the merits of our CANDU system which, as you are no doubt aware, is reliable, efficient and economical. In 1981, Ontario Hydro's nuclear units took the top six positions in a performance rating of the world's largest nuclear reactors.

Canada has tremendous electrical generation potential from one end of the country to the other. This could be from coal-fuelled generating plants in Alberta, hydro-electric dams in Manitoba and Quebec, nuclear plants in Ontario and New Brunswick or even tidal generation facilities in Nova Scotia. American buyers, whether in the East, the West or the Midwest, can find in Canada reliable sources of electric energy, the production of which is not tied to the vagaries of the international oil market. A large number of American consumers should be able to

benefit from Canadian electricity. Now that technology makes it possible to transmit electricity over greater distances, public utilities interested in purchasing Canadian electricity may be prevented from doing so by regulations in some states. I think it is our duty to do everything possible to ensure that our constituents enjoy the highest level of energy security and the lowest prices.

Canada wants to sell electricity to the United States, but in doing so we must respect environmental requirements. The construction of generating plants, whether nuclear or hydro-electric, has an impact on the environment, and this aspect has taken on increasing importance in the past few years, both in Canada and the United States. We believe that these concerns are quite legitimate, and the National Energy Board has the mandate of weighing environmental impact when reviewing applications for export contracts.

In short, the record of electrical exchanges proves beyond a shadow of a doubt that Canada has been, still is and will continue to be an honourable partner. From the moment when, early in this century, the first kilowatts generated by the Niagara stations began to light up American homes and power American factories, Canada and the United States have been benefitting from electricity exchanges in a spirit of mutual respect. It is possible for two countries with their own objectives to derive mutual benefit from energy trade. The electricity record proves this.

In the course of describing great opportunities for expanding trade in electricity between our two countries, I have made some mention of Canada's National Energy Program. As you may be aware, this program has attracted considerable attention in the United States. I do not want to let this important occasion pass by without some discussion of this broader aspect of relations between Canada and the United States.

Let me begin with a question. What do you suppose would happen to an American politician who made it a matter of high policy that the U.S. oil industry should be 50 per cent foreign-owned by 1990? Aside from anything else, do you suppose that he would be accused of being excessively nationalistic?

I realize the question is far-fetched, even bizarre. Yet, something remarkably close to that has happened in Canada. Under our National Energy Program, we have adopted the goal of having our oil industry, in effect, no more than 50 per cent foreign-owned by 1990. To put it another way, we would like to increase Canadian ownership to 50 per cent by that time. In support of this, we have established policies which increase the opportunities for Canadians to participate in the industry. At the same time, however, we have ensured that foreign oil companies in Canada can earn returns that compare with anything available around the world.

For our efforts, we have heard complaints from within the oil industry in Canada, and from several quarters in the United States, that we are allowing excessive economic nationalism to damage the industry and to weaken the entire Canadian economy. Fifty per cent foreign ownership of a vital, fundamental industry – that's called excessive nationalism. If that's the case, I would hate to be accused of being only moderately nationalistic.

Quite frankly, the Canadian people are not particularly nationalistic in the conventional sense of the word. Of course, they love Canada and all that it stands for. And they strongly support the idea of a more Canadian oil and gas industry. But not, I submit, because of any tide of nationalism sweeping the country.

It is economic common sense of the most basic kind that a nation rich in energy resources should obtain a reasonable share of the benefit from the development of those resources. The Government of Canada believes, and most Canadians agree, that a reasonable share of those benefits is not available when 72 per cent of the revenues of the oil and gas industry accrue to foreign-owned companies, as was the case in October 1980. Since then, the Canadian share of those revenues has increased by almost seven percentage points. We fully expect to achieve our 50 per cent goal by the end of the decade. And we will achieve it predominantly through a sustained increase in exploration and production by Canadian companies playing a major new role alongside the strong foreign-owned sector of the industry.

Our goal is moderate. Our methods are moderate. And they are in complete harmony with vigorous development of new supplies of oil to reach our other major target for the end of this decade — independence from the world oil market. We are well on the way to reaching that goal with a combination of supply and demand-side measures which have won strong support from Canadians in every region of the country.

There is a point to be emphasized here. As you may recall, the National Energy Program initially took the form of policies put forward by the Government of Canada. To hear the Program discussed in recent months, one might think we were still at that stage. In fact, we have come a long way from there.

The base of the National Energy Program has been considerably broadened through the political consensus achieved in the agreements signed with several provinces beginning last autumn; through major legislative action such as the Canada Oil and Gas Act, and the various elements of the Energy Security legislation just recently passed by the Canadian Parliament, and through the NEP Update issued in June by the Government of Canada. Thus, when we are talking about the National Energy Program, we are talking about a policy that is now part of the law of the land, one that has been evolving over the last two years and has adjusted to the rapidly-changing energy situation world-wide.

As a result, the overall direction of Canadian energy policy is now clear, and it is firm. The fundamental principles set out in the NEP document are now established. We have been consistent in upholding those principles. We have built a stable and comprehensive framework for the development of the petroleum industry in Canada. The uncertainty associated with the building of this framework is now largely over. When basic economic conditions improve, we will be seeing more of the benefits of the energy framework we have established. Already there have been some major announcements of vigorous offshore and frontier drilling ventures involving both Canadian and major multinational companies. This is just the beginning of a very exciting period of growth in the oil and gas industry.

I have briefly sketched for you the fundamental reality of Canada's energy policies. In the short time left at my disposal today, I want to respond to some of the criticism we have heard of specific measures we have adopted to attain our energy goals. I am sorry to say that much of the criticism these measures have received in your country has seriously distorted the reality of what we are doing.

It is said that one of the aims of the NEP is to siphon off revenue from oil producers and to use these funds as a financial lever to enable Canadian government and private companies to buy back at least half of the oil industry from its predominantly U.S. owners.

This repeats the common misunderstanding that Canadianization is to take place solely through acquisitions, especially by the public sector. As our National Energy Program Update makes clear, and I have already noted here today, this is not the case.

Following an early flurry of acquisitions in 1981, it is expected that much of the future progress toward increased Canadian ownership will be achieved through participation in joint ventures and aggressive involvement of Canadian companies in exploring and developing new Canadian oil and gas resources.

There has been a lot of criticism of the revised revenue-sharing system under the NEP as a so-called "revenue grab" by the federal government. We make no apologies for the fact that the federal government has increased its share of oil and gas production revenues. It was our view, and that of most Canadians, that 10 per cent of those revenues was too small a share for the national government — and that's what we were getting in 1980. Although direct comparisons with revenue-sharing regimes in other countries are subject to some uncertainty, our figures show that in Texas, at that time, the comparable figures were 35 per cent to the federal government, 17 per cent to the state and 48 per cent to the producer. The point to be emphasized here, however, is that the industry's position in Canada has not been weakened. In the period 1975-80, the industry's share of oil and gas production revenue was 45 per cent. We estimate that for the 1981-86 period, it will be 46 per cent. Total federal and provincial taxes have not increased. In fact, our adjustments in revenue sharing resulted in a slight improvement in the industry's share of revenues needed to carry on its vital job.

Nonetheless, the impression persists that we have greatly increased the fiscal burden on the petroleum industry. This misperception is largely the result of a failure to distinguish between fiscal and non-fiscal influences on the industry. The industry's current financial pressures result entirely from lower-than-expected oil prices and weak markets, and from higher-than-expected interest rates on top of debt loads which have risen rapidly in recent years.

The industry continues to show its historic cyclical characteristics. As I have said, we believe the cycle is about to turn upward again. In any case, our fiscal regime for the petroleum industry is designed to expose governments, not the industry, to the bulk of the downside revenue risks in the years ahead. Measures taken recently by both the federal and provincial governments to ease the tax and royalty burden on the industry have further contributed to this trend.

Another common myth is that the proposed major megaprojects, such as the Alsands project in the Alberta oil sands and the Canadian portion of the Alaska Natural Gas Pipeline, were stopped by the NEP. In fact, the change in world oil price expectations has caused the cancellation or postponement in the first half of 1982 of several energy megaprojects around the world, such as Exxon's multi-billion dollar joint venture to produce fuel from oil shale in Colorado, LNG projects in Africa and the Middle East, and Mexico's planned nuclear program.

As for the Alaska Pipeline project postponement, I find it an even more bizarre example of the supposed negative effects of Canadian energy policy. This is basically a U.S. energy project for transporting American Gas to the lower 48 states. The problems facing this project have resulted largely from financing difficulties associated with the American portion of the line. A significant part of the Canadian portion of this project has already been built, and has been carrying Canadian natural gas exports to the U.S.

Our policies are working to meet Canadian energy needs, while providing the large foreign-owned sector of the oil and gas industry an excellent opportunity for continued growth.

I have every confidence that we will continue to see strong American-owned oil companies working with Canadians to find and produce petroleum in Canada, not to mention Canadian companies doing the same in your country. That's part of the shared tradition that we have built in energy as in other fields.

It is a tradition based on co-operation and mutual respect for the legitimate aspirations of each country. Canadians have placed a high priority on playing a larger role in their petroleum industry. It is a priority that I am sure Americans can understand, and will increasingly come to support as a necessary stage in the development of our strong and always-changing economic relationship. As I have suggested in relation to the potential for expanded trade in electricity, it is a relationship rich in opportunities for mutually-advantageous arrangements. I have every confidence that our two countries will make increasing use of these opportunities in the years ahead.

NOTES FOR AN ADDRESS BY
THE HONOURABLE MARC LALONDE
MINISTER OF ENERGY, MINES AND RESOURCES
TO THE ST. JOHN'S BOARD OF TRADE
SEPT. 3, 1982

Check Against Delivery



We all know what is at stake in the offshore. Development of the Hibernia oil field would give us all, especially the people of Newfoundland, a massive boost. It would also mean a healthier Canadian economy. Many of you in this audience would be among the first to benefit.

As you know, I met Mr. Marshall yesterday. At our meeting, I tabled a concrete, and extremely generous offer for a permanent agreement on offshore resource management and revenue sharing. In fact, that regime proposal is more generous than any arrangement existing in any other federal country in the world today.

If our offer is accepted, it will mean new prosperity in this province.

There are billions of dollars in investments involved. Newfoundlanders are frustrated at seeing this opportunity, one of the few big economic plays in Canada today, delayed. Equally frustrated are those of us concerned about Canada's oil supplies.

The best way to tap offshore resources is for the federal and provincial governments to reach an agreement on offshore resource management. The agreement would offer industry the climate of certainty that it needs.

With certainty, exploration and development activity will immediately increase -- a shot in the arm for those of you in business. New businesses will be established.

You will see your manufacturing firms producing equipment and components. Those of you who provide services, from caterers to electrical contractors, will also benefit. Particularly during the initial planning of development for Hibernia, there will be numerous opportunities for research and engineering work in the province.

Look what has happened in Nova Scotia already. Our agreement with Nova Scotia has worked. In the last few months, together we have announced more than \$750 million dollars in new activity offshore Nova Scotia. I can tell you that there's much more to come in the next few weeks. There has also been an announcement that the Venture natural gas discovery is going into the development stage, with production expected by 1988.

We've been striving for more than a decade for a settlement with Newfoundland that will yield these economic benefits here as well. But the issue of offshore resource ownership has always stood in the way.

There's nothing unusual, mind you, in Canadians engaging in intense debate. That's part of our heritage! I sometimes think a Canadian's idea of heaven is an eternal panel discussion.

But now it is time to finish this discussion and get activity moving.

The dialogue goes as far back as 1965 when the issue of offshore ownership and jurisdiction was put before the courts. In 1967, the federal government got a favourable ruling from the Supreme Court of Canada on the question as it pertained to the waters off the west coast.

In 1968, despite the court decision, we offered to enter into arrangements with the coastal provinces to share management of offshore resources and to share revenues. It really didn't help. We have been unable to reach an agreement with the Government of Newfoundland and Labrador on joint management and revenue sharing in all of the talks we've held over the years.

No one can say we haven't tried. In July of last year the Prime Minister tried again. He offered to work toward a negotiated settlement of all issues. Talks opened in October.

Since then, three documents have been tabled -- two by Newfoundland and one by the federal government. That was until yesterday when I handed Mr. Marshall a fourth -- our offer on resource management and revenue sharing.

We were shown the provincial government's proposal at a negotiating session last January 25th. It has been said that we never responded to that proposal. On the contrary, we talked about it then and we countered orally with an offer of our own. The federal proposal was discussed again at sessions in Ottawa in early February. We were to submit it formally and in writing at a meeting February 16, but the Newfoundland government decided not to attend.

On February 12, Premier Peckford announced he would take the question of ownership and jurisdiction to the Newfoundland Court of Appeal, and suspended negotiations.

About three weeks later, the Government of Canada reached an offshore agreement with the Government of Nova Scotia.

Premier Peckford called a provincial election and won it handily when the votes were counted April 6. As we all know, before or after the election, the offshore issue was still the same.

I met Mr. Marshall again in May to see if we could find some common ground for reopening negotiations. There was none. The provincial government continued to set the same pre-conditions to resuming negotiations.

On May 19, my colleague, Justice Minister Jean Chrétien, asked the Supreme Court to consider the ownership issue. The federal reference is simpler than the province's. It seeks a ruling on the offshore area most likely to be developed first. Everyone knew that the case the provincial government referred to the courts would ultimately end up in the Supreme Court of Canada. The federal decision to seek a Supreme Court ruling on the area surrounding Hibernia was taken to help clear the air legally more quickly so that industry would proceed to the development stage with all the resulting benefits to the people of Newfoundland. It should also clear away the persistent stumbling block in our negotiations over all these years, if we cannot come to an agreement before the court renders its decision.

As you are aware, the offshore jurisdiction issue had already been before the courts through a union certification dispute. It was never resolved in that case. But it is important to remember that the issue of offshore jurisdiction was first raised by one of the private parties before the Newfoundland Labour Relations Board and in the legal actions that followed the NLRB's decision and the Canada Labour Relations Board's concurrence.

The Newfoundland Board decided the province had jurisdiction over seabed resources, so the Board said it could rule on the Seafarers International Union's bid for certification of offshore workers. It's normal procedure when an important question of constitutional law is raised for the federal and provincial governments to become involved in an action. The federal government was forced to enter the case as an intervenor to address the jurisdiction issue. The Federal Court of Canada decided in the end that it did not have to rule on the jurisdictional question to settle the more narrow issue of union certification.

I want to comment here that there is nothing wrong with the governments of Canada and of Newfoundland and Labrador disagreeing over a point of law. There's no scandal, no cause for alarm or for exaggerated public posturing. Each government is entitled to its opinion and each has every right to argue its case in court.

Our opinion is that the people of Canada, including the people of Newfoundland -- through their national Parliament -- have ownership and jurisdiction over offshore resources. The situation is identical in every other federation in the world, from the United States to Australia. And it's not a question of those national governments being inflexible, unreasonable, arrogant or whatever other pejorative attributes that one might think of. It is simply that it has been universally found that jurisdiction over offshore waters is a national responsibility around the world, in the same way that external affairs, or national defence, or fisheries is a national responsibility. After all, it was up to national governments to extend their jurisdiction beyond the old 12-mile offshore limit that used to apply. And it's up to national governments to deal with each other in such negotiations as the

International Law of the Sea Conference. We do not dispute Newfoundland's ownership of resources within the province, just as we do not dispute Alberta's. But we believe that resources offshore do not belong just to one provincial government. They belong to all Canadians, including the people of Newfoundland.

Furthermore, in Canada, through incentives of one kind or another since offshore drilling began, all Canadians have contributed heavily to the costs of offshore exploration -- in fact, quite a lot more than for exploration inside a provincial territory. To the beginning of this year, that amounted to at least 85 per cent of the money spent on Hibernia drilling. Today, exploration costs are borne by all of us through Petroleum Incentive Payments. With a high level of Canadian ownership, companies can have 80 per cent of their exploration costs met directly out of the national treasury. Every Canadian owns a share of these offshore resources. Every Canadian has paid handsomely to see them developed.

Nonetheless, we are still offering the most favourable and generous terms in the world to coastal provinces to share both the revenues from offshore resources and the management of them. No matter what happens in the court cases, both Newfoundland's and ours, we intend to stand by any settlement reached. We want a practical, pragmatic agreement that will survive a ruling by the courts on the narrow legal question. We want an agreement that will settle the revenue sharing and joint management issues so the industry knows the rules and can get on with the job. An agreement meeting these goals can be written in such a way that the permanent interests of all parties are safeguarded.

Ownership has always been the stumbling block to concluding an agreement. We agreed to set it aside in our talks with Nova Scotia. We agreed to the same thing in our talks with Newfoundland. But, in spite of our efforts, it has remained a central issue in talks with Newfoundland. That should not mean that negotiations are broken off. There have been federal-provincial legal battles before. Yet in other cases federal-provincial negotiations have continued toward an enduring settlement.

I can give you an example: our energy negotiations with the Alberta government took place against the background of a legal challenge by that government over federal natural gas taxes. We didn't demand that court action be stopped while we negotiated. We recognized the right and desire of affected parties to seek clarification in the courts. We still got a deal. We are all satisfied. And the court decision on the natural gas tax issue raised by Alberta hasn't affected that deal one bit.

There is stability in that agreement, just as there will be in an agreement with Newfoundland. There has been a lot of concern about permanency of an agreement after it has been concluded. Frankly, I think that fear is ill-founded. In the 115 years since Canada became a federation, the national government has not been one to walk away from its signed agreements with the provincial

governments. But we are ready to talk to the Government of Newfoundland and Labrador about safeguards to make sure both sides observe an agreement on offshore resources.

It is not the legalities of this situation that need preoccupy us here. The courts will decide that issue. What's at stake is a federal-provincial agreement on joint resource management that will unlock this prosperity we've been talking about.

The courts can settle the legal question of ownership or jurisdiction. But a court decision is not the final word in settlement of the urgent issues of management and revenue-sharing for offshore oil and gas. Not a decision by the Newfoundland Supreme Court, nor by the Supreme Court of Canada. Not now, not later. These issues can only be settled by governments. That is why we elect governments to represent us -- to carry out the day-to-day business of running the country.

That is why I have come to St. John's -- to seek an agreement. We were making offers to the Government of Newfoundland as long ago as last January. But since last February, we have sat at the negotiating table alone.

It wasn't so long ago that I was involved in similar negotiations with the Alberta government over oil and gas prices. We resolved that one about a year ago and similar agreements with British Columbia and Saskatchewan quickly followed. It was only last March that we signed an offshore management agreement with the Province of Nova Scotia.

There's nothing unusual about federal-provincial bargaining or about governments adopting strong positions. But if you consider that list of four federal-provincial energy agreements signed within the last year or so, you'll have to conclude the system is working. The federal government can fairly claim some credit for making it work. Our track record refutes any allegation that we are just standing there inflexible, frozen in our views, unwilling to compromise. I only ask the people of Newfoundland and Labrador to look at the record. It speaks for itself. We are trying to make our Canadian system work. We are approaching these negotiations with Newfoundland with a reasonable, flexible attitude.

There has been much public controversy about the negotiations so far. This is not surprising considering the importance of the issues at stake. But the more public the discussions, the more difficult it becomes for negotiators to reconcile differences.

I hope a new round of negotiations can be conducted privately. We have not engaged in a propoganda war. Trading claims and counter-claims tit-for-tat in the media with the Government of Newfoundland would only have made it more difficult to return to negotiations.

So I won't stake out any ground here that I might have to abandon in the weeks ahead. We are in these negotiations to reach an agreement and we readily concede we may have to make some compromises to accomplish that. Hopefully, negotiators for the provincial government will be as ready to be flexible. We recognize this process is going to mean offers and counter-offers. It's going to mean movement, even in areas of legitimate and vital interest. We know these facts from our experience in signing agreements with other provinces. We hope people in the Newfoundland government know equally well what must be done.

Let me outline the precepts of the federal proposal. First, we firmly believe that Newfoundland should enjoy rich rewards from offshore resources. That's especially true during the initial years of production when there will be enough investment to help put the provincial economy on a solid footing and to end the lean years. Second, we believe that both the federal and provincial governments have a role in offshore resource management. We believe we need a practical, co-operative approach to management in which the Government of Newfoundland and Labrador will have a strong say in the way exploration and development take place. Third, we want an arrangement where both governments deal together, shoulder to shoulder, with the oil industry. Finally, we want an agreement that recognizes the federal government's responsibilities for national energy planning, resource management and securing economic benefits, primarily for the people of Newfoundland and Labrador, but also for all Canadians.

I want to emphasize that we are seeking an agreement that will respect Newfoundland's culture and priorities. The fishing industry and sensitive offshore environment will be safeguarded. We will rigourously enforce regulations designed to ensure worker safety and prudent use of our scarce resources. We recognize that the pace of development must be such that undesirable social impact is minimal. And we're quite willing to give the Newfoundland government real positive power to influence events.

Our proposal for a joint management board ensures that the province, through its representatives, participates fully in all offshore approvals.

In the case of the agreement with Nova Scotia, the board makes decisions on the management of offshore oil and gas resources including the granting of new lands, negotiation of exploration agreements and approval of development plans. It also:

- considers company plans for dealing with economic benefits and social impacts associated with offshore oil and gas activity that have been reviewed by interested federal and provincial departments;
- directs the administration of offshore exploration and development;

- advises on amendments to offshore legislation, and related regulations; and
- collects and administers certain offshore revenues.

From this list of responsibilities, it is clear that this is a meaningful co-operative management board. Both federal and provincial board members have the right to bring forward items for discussion.

In key resource management decisions, provincial representatives on the board have special powers to stop proposed decisions that concern them, for a period of time. It's a power that no one wants to see used, but it does assure the province of real clout in the decision-making process.

On the revenue sharing side, the Government of Nova Scotia will receive all government offshore resource revenues, except the normal federal share of corporate income tax, until the province reaches a level of fiscal and economic capacity well above the national average. Fiscal capacity is an indication of financial resources available to a government to provide public services.

After that point, wider sharing with other Canadians will take place. If this formula were applied today in the case of Newfoundland, wider sharing would not occur until after Newfoundland had reached 122 per cent of the national average fiscal capacity. You might well ask, what does this mean. I can answer that it is very generous indeed. Using the latest available statistics, comparable fiscal capacity figures are 58 per cent for Newfoundland, 118 per cent for British Columbia, and 92 per cent for Ontario. Only Alberta's fiscal capacity is greater than 123 per cent. Of course the national average is 100 per cent.

There are any number of figures we can throw around to illustrate the implications of such a revenue sharing system for Newfoundland. Estimates of revenue from offshore resources are only as good as the multitude of assumptions on which they are based. These assumptions can be pretty sweeping -- everything from how much oil is actually out there to the transportation system that will bring it ashore. But let's make some assumptions and see what we come up with:

- if there are 220 million cubic metres (or 1.4 billion barrels) of oil recoverable in the next 35 years in a field such as the Hibernia discovery;
- and if we assume that the world price for oil will increase at 2 per cent a year above inflation after 1984 from the current approximately \$291 per cubic metre (or about \$46 per barrel);
- and assuming production beginning in 1988 and with Newfoundland receiving the revenue share provided under the terms of a revenue sharing deal along the Nova Scotia lines;

- then the provincial government would reap a total of better than \$65 billion dollars, around three times the total federal government's share of production revenues.

That's exclusive of the Crown interest in offshore production which, we propose, both governments would share in some negotiated proportion.

That should help meet some provincial priorities! After all, it amounts in Newfoundland and Labrador to more than \$116 thousand dollars for every man, woman and child over the life of the Hibernia oil field alone. And that's exclusive of jobs and other economic benefits which will accrue to individual Newfoundlanders and Newfoundland businesses.

In addition to the sharing of management and the sharing of revenues, we have proposed that an agreement should provide a mechanism for co-operation to ensure that we are prepared for oil and gas development and that spinoffs are captured for the benefit of the people of Newfoundland and Labrador. Infrastructure must be built in advance of production and training programs are required, to name a few examples. We believe that both governments should co-operate in these endeavours and our offer proposes just that.

Let me sum up.

I've made it clear that the argument for a strong federal role in offshore resource management is compelling. Equally compelling is Newfoundland's claim for a significant role in offshore resource management and a substantial share of government revenues from the offshore, particularly in its current economic circumstances. We recognize Newfoundland's claim, regardless of who the court decides to be the owner of the resources. When we reached our agreement with the Government of Nova Scotia, both sides simply set ownership aside without prejudice to the claims of either.

Much remains to be done before any oil flows ashore from Hibernia. It will take years of work and billions of dollars in investment before we actually produce our first barrel. I would like to see a settlement so that we can tackle this massive task in a co-operative framework.

So where does all this leave us?

We all agree that offshore development will bring prosperity to this province and stimulation to the Canadian economy. But we are denied those benefits because the uncertain jurisdictional climate forces industry to delay decisions.

In the case of Newfoundland and Labrador, we are making the most generous settlement offer in the world. Nowhere else does a national government share so much of the revenues and so much of the power over resource management. Over 35 years, the Newfoundland treasury would benefit by at least \$65 billion dollars from Hibernia production alone, if current resource and price estimates prove accurate.

That's our position. That's our offer. We want to talk to the Government of Newfoundland and Labrador about it. We always have. We hope the provincial government will share our desire to work something out.

Thank you

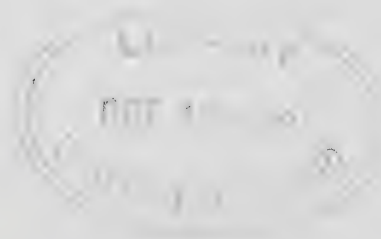
NOTES FOR AN ADDRESS BY

MR. DAVID DINGWALL, M.P.

PARLIAMENTARY SECRETARY TO THE
MINISTER OF ENERGY, MINES AND RESOURCES
TO THE 34TH CANADIAN CONFERENCE ON COAL
TORONTO

SEPTEMBER 20, 1982

Check Against Delivery



As you may know, I represent a coal-mining constituency in the House of Commons. We in Cape Breton like to think the Canadian coal industry began on our Island. Coal has always been important to us, and nowhere else have the policies of the federal government been more important to coal. It's a pleasure to participate in this session on positive government policies.

Before beginning my remarks on federal coal policies, I would like to bring best wishes to the Conference from the Honourable Jean Chrétien, Minister of Energy, Mines and Resources. Jean brings considerable Cabinet experience to his new portfolio and his appointment has been well received. Both of the ministers with significant responsibilities for coal policy, Mr. Chrétien and the Honourable Judy Erola, Minister of State for Mines, have reputations for frank discussion and straight talk. We look forward to continued good relations between the federal government and the Canadian coal industry.

The Canadian coal industry has done well in the last few years. This year will, of course, be more difficult. But I think it is worth noting that both production and exports were higher in the first six months of this year compared to the same period in 1981, which was a record. In the first three months of the year coal actually contributed over 12 per cent to our domestic primary energy supply, a figure higher than our department's expectations. By any standard we have an expanding coal industry of growing importance to our economy, and one that is competent, flexible, reliable and innovative.

Until about 1970 the federal government's policies were primarily directed towards supporting an industry faced with difficult economic prospects. The major effort was in providing subventions to the railway companies to allow coal from various parts of Canada to compete in our own markets by compensating for the large distances the coal had to be moved. This was an expensive policy. As of March 31, 1960, the global estimate of total monies spent by the federal government in assistance and support of the Canadian coal industry was about \$200 million. In the years immediately following, additional sums were involved in subventions; I think it is worth looking back to see how successful this policy was. The Japanese metallurgical coal market was opened to Canadian producers by subventions made available by the federal government. These subventions at their peak amounted to some \$4.96 per tonne, but they allowed coal to move. The policy resulted in the survival of at least a skeletal coal industry that was in place to take advantage of the turn of the tide. I perhaps should remind you that these policies were roundly criticized at the time, but I don't think there are many people today who doubt they were a success.

The Cape Breton Development Corporation is another example of a success story. Set up in 1968, when it looked as though coal mining was completely doomed in Cape Breton, the Cape Breton Development Corporation allowed the continuation of coal production. It is the key to Nova Scotia's ability to reduce its dependence on oil for electricity generation. Two new mines have been opened, and more are planned as the province moves from a pre-1973, 68 per cent dependence on oil for electricity to less than 20 per cent by 1985.

We now have, for the most part, a financially strong and growing industry. Our policy is to ensure that coal can make the maximum possible contribution to the Canadian economy. This does not mean that we will be forcing coal into the system; rather, we believe our proper role is to facilitate the development of the industry by helping it overcome the many obstacles with which it is faced. We are addressing these obstacles in a way appropriate to each. In essence you can think of our approach to coal as an effort to "grease the wheels", to let coal reach its true potential. I would like to review some of these activities with you today.

Transportation problems remain one of the greatest concerns of the industry. The Canadian railways are moving coal effectively and efficiently. However, capacity limitations, particularly on the movement of coal across the mountains to the west coast, are looming. Important decisions will have to be made soon. The Minister of Transport has received the report of Professor Clay Gilson and has announced his intention to introduce new legislation into Parliament this fall that will lead to a reform of the rail rate structure for grain. This reform is the essential step for the provision of additional rail system capacity, and we are grateful to your Association for its encouragement and advice on this very important question.

The federal government is also fulfilling its traditional responsibility for the provision of infrastructure, especially additional port capacity, for both the established and newly developing coal regions. Through the cooperation of the National Harbours Board, the expansion of the existing major loading facility, at Roberts Bank near Vancouver, is proceeding. And an entirely new loading facility, also capable of taking the largest ships in the international coal trade, is now being constructed at Ridley Island near Prince Rupert.

The federal government has recently announced yet another step in the improvement of transportation in Canada. In cooperation with the Province of British Columbia and the B.C. Railway, the new Anzac Spur being built to serve the northeastern coal fields of that province, will be electrified. This step is being taken in preference to installing expensive ventilation equipment on the two long tunnels -- nine and six kilometres -- now being drilled. The federal government's share of this program will help offset the

higher front-end cost of the electrification option, so that Canada will have a major demonstration of electrified rail operation at high voltage moving the heaviest trains and under severe weather conditions. At the same time a renewable energy source -- hydro power -- will replace oil. It is too early to say whether this demonstration will be the prelude to a more general electrification of our railway system, but it is a necessary first step and the federal government is pleased to help support this interesting endeavour. Part of the program ensures the development of a domestic industry capable of supplying electric locomotives of the most modern type.

But it is in the field of technical development of the industry that the federal government's policies are perhaps the most prominent. Let me give you some idea of the scale of our efforts. Under the National Energy Program, the federal government's overall expenditures on energy research and development in 1982-83 have been increased to an annual level of approximately \$290 million. The amounts spent on coal and coal-related activities are now about \$20 million per year. While part of these funds are spent in the laboratories of the department, and by the other agencies of the federal government interested in coal, important expenditures are made in the private sector, provincial research councils and universities.

I would like to talk a little about this research effort today. The Department of Energy, Mines and Resources operates laboratories working on coal in different parts of the country. Geological and mining studies are conducted in Calgary, coal beneficiation and some carbonization studies are conducted in Edmonton at facilities shared with the Research Council of Alberta, and a new health and safety laboratory has been established in Sydney. The central laboratories of Canada Centre for Mineral and Energy Technology (CANMET) in Ottawa are a focus for their efforts in the field of combustion, carbonization and, now increasingly, conversion of coal to liquid fuels. The CANMET hydrocracking process, developed as an efficient way to upgrade bitumen and heavy oil into more valuable petroleum products, will be demonstrated at the 5,000 barrels per day scale in a facility being installed at the Petro-Canada refinery in Montreal. The process is now being studied for its possible application to coal in the so-called co-processing mode, whereby coal and bitumen would be upgraded to valuable products at a higher overall efficiency than obtained with separate upgrading processes. Under the terms of the Alberta-Canada Energy Resources Research Fund, a new Coal Mining Research Centre was established in Edmonton with which your Association continues to play a leading role. It will soon be moving to new premises south of the city in accommodation designed to house an expanded effort by the Research Council of Alberta and the Western Research Laboratory of CANMET.

Nor have federal efforts in the technical development of the coal industry been restricted to the Department of Energy, Mines and Resources. The National Research Council has been active in certain specialized fields. Perhaps its best known coal development is the "spherical agglomeration" process, which offers the potential of beneficiating coal at fine sizes and at high recoveries. The Council has also agreed to take on the coordination of research and development in the Atlantic Provinces where there are a number of organizations working in this area. The Department of the Environment has been active in the field of pollution abatement. The National Sciences and Engineering Research Council has been an effective instrument to support research generally in the universities including efforts on coal.

The Canada-Saskatchewan Energy Pricing and Taxation Agreement, signed on October 26, 1981, involves a total of \$30 million over five years and will be devoted to heavy oil and fossil fuel research, development and demonstration activities. The fossil fuel component will focus on the lignite coal resources of that province. We also look forward to active cooperation and coordination with the efforts of the newly created Coal Research Authority of Alberta. In addition, we have growing collaborative programs in the field of research and development with the other major countries interested in coal, both through the programs of the International Energy Agency and bilaterally.

As I have noted, the advent of the National Energy Program gave the opportunity to strengthen the technical activities in the field of coal. Nowhere is this more true than in the Atlantic Provinces. An off-oil utility fund of \$175 million was established to support the conversion of such stations as the Coleson Cove facility of the New Brunswick Electric Power Commission. The first two steps of a study of technical, economic and environmental considerations for this conversion are now complete, and a conversion option that will result in substantial savings of oil has been identified. These savings can be achieved while substantially reducing sulphur dioxide emissions. In the coal utilization sub-program, support has been established up to a limit of \$150 million for the introduction of efficient and environmentally acceptable coal utilization technologies.

The efforts in this program are primarily directed towards commercializing technologies of special interest to the region. The atmospheric, fluidized-bed, twin-boiler heating plant at the Canadian Forces Base at Summerside, Prince Edward Island -- the first in Canada -- is expected to begin operation late this year or early next. An important program to demonstrate coal/water fuel technology is being undertaken by the Cape Breton Development Corporation and the New Brunswick Electric Power Commission. A small facility will be constructed shortly in Sydney to prepare the coal/water suspensions, and a burner demonstration program will be undertaken at the Chatham, New Brunswick, facility of the Commission.

This technology offers the hope of economic substitution of coal in facilities originally designed to burn heavy oil. At the same time, by virtue of the opportunity to reject sulphur in the fine coal preparation stage, this would result in lower emissions of sulphur dioxide. The federal government's program on coal/water fuels is being demonstrated in eastern Canada, because the facilities are available there, but that is not where we want the concept to stop. Coal/water slurries are one of the options for exporting coal from our west coast, and we hope to see our lead taken up by your industry in evaluating such export potential.

Agreement has also been reached between the Department and the Nova Scotia Power Corporation for the next stage in a study of the commercialization of fluidized-bed combustion technology at the utility scale. A substantial quantity of coal is available in Cape Breton which, because of sulphur and other quality aspects, is not easily useable in conventional combustion processes. The utilities, for their part, are reluctant to make the large investment in new technology until resolution of several outstanding technical uncertainties. The facility soon to be built at Point Tupper, Nova Scotia, will perform long-term testing of materials, and the knowledge gained in this program will be useful not only for the proposed installations in the Atlantic Provinces but also elsewhere in Canada.

The Scotia Coal Synfuels Consortium has also initiated a feasibility study assisted by a \$1 million contribution from the federal government. The project has been undertaken to determine the technical and economic feasibility of converting Nova Scotian coal into liquid transportation fuels.

Recently, the federal government made a special effort to improve our capability to access underground coal. I'm referring, of course, to our tunnel-boring machine development. Support through the National Research Council, and through Supply and Services Canada, has helped the Cape Breton Development Corporation and Energy, Mines and Resources to demonstrate that a tunnel-boring machine can penetrate our coal measures at a rate some three times faster than conventional tunnelling. The demonstration was carried out by a four-metre diameter machine, built right here in Toronto, and operating at the Donkin-Morien site in Cape Breton. Not only do tunnel-boring machines bore access tunnels faster than conventional drill-blast-load methods, but they also achieve longer-lasting tunnels, with less ground movement. The resulting tunnels are safer, because elimination of blasting avoids cracking the surrounding strata, which weakens it and allows inflammable gases to flow more freely. The four-metre diameter machine is only a start. Right now, near Toronto airport, a machine that will tunnel four kilometres out under the sea off Cape Breton is being assembled. This machine, which has a 7.6-metre diameter, will put Canada at the forefront of tunnel-boring technology.

This has been an active year for energy policy. Parliament has now enacted the legislation needed for the National Energy Program. Only three of the Acts passed earlier this year deal with coal in any way. The Petroleum Monitoring Act (C-106) gives the Minister of Energy, Mines and Resources the power, if he requires it, to obtain information on ownership and control aspects of the coal industry. Canadians want the coal industry to remain mostly Canadian owned. We realize the situation is quite different from that in the oil and gas industry. Well over half the coal industry is Canadian owned at the present time and there is no immediate cause for concern. With the cooperation of your industry it may not be necessary to invoke the powers implicit in this Act. In respect to the other two Acts -- one dealing with Petroleum Administration and the other the National Energy Board -- coal has been expressly defined as not a hydrocarbon, and hence does not fall under the power of these Acts. The Minister of Energy, Mines and Resources, however, has the power to designate products made from coal, such as synthetic oil, as substances subject to control. The reason for this legislation is to avoid the anomaly that would result were a substantial synthetic fuels industry to develop in the future. While the Minister already has the power to control synthetic oil derived from the oil sands, without this new legislation he could not control synthetic oil derived from coal.

The intervention of your Association was helpful in the passage of this complex package of legislation through Parliament, and the Minister has promised consultation before invoking his powers under this legislation.

What of the future? The Government of Canada looks forward to a period of renewed growth and prosperity when the current world-wide economic difficulties are behind us. We are sure that the coal industry is going to share in this period of growth. We look forward to the day when coal will be supplying an even higher percentage of our energy supply, under environmentally benign conditions, with the coal industry finding new technologies for existing uses or coal being used in new ways. To our customers I say we have proven to be reliable suppliers to whom you can look for coal for many years in the future. The prospects for both increased domestic and external sales look bright in the long term. We must show the confidence and steadiness necessary to find the solutions for the obstacles that still remain.

NOTES FOR AN ADDRESS
BY DAVID DINGWALL, M.P., CAPE BRETON-EAST RICHMOND
PARLIAMENTARY SECRETARY TO THE
HONOURABLE JEAN CHRETIEN,
MINISTER OF ENERGY, MINES AND RESOURCES,
TO THE KENTVILLE BOARD OF TRADE,
KENTVILLE, NOVA SCOTIA
SEPTEMBER 22, 1982

Check against delivery

It is indeed a pleasure to be invited here today to speak to you in my role as Parliamentary Secretary to the Minister of Energy, Mines and Resources. As you're well aware, we have a new man at the helm at Energy: my colleague, the Honourable Jean Chrétien.

Mr. Chrétien brings to his new post impeccable credentials. As you know, as Minister of Justice he was the Prime Minister's right-hand man in our successful drive to bring home our Constitution. It was a proud day for all Canadians, and a proud day for Jean Chrétien, when her Majesty the Queen proclaimed our new Constitution last April.

Now Mr. Chrétien has before him another challenging opportunity -- his new role as Minister of Energy, Mines and Resources. Under our former Minister, Mr. Lalonde, now the Minister of Finance, Canada and Nova Scotia were on their way to becoming self-sufficient in energy -- one of the fundamental goals of the National Energy Program.

With his well-known skill as a negotiator, and his overriding belief in Canada, I'm confident that Mr. Chrétien will be able to build on the success we have achieved.

During the past two years, we began to change the face of the Canadian energy industry, making it a more Canadian-owned industry so that more Canadians have a voice in how Canada's immense energy supplies will be developed for future Canadians.

In particular, the federal government signed binding energy agreements with the governments of the three energy-producing provinces -- and one more with the government of the Province of Nova Scotia. We hope to sign another one soon with Newfoundland, in order to get on with the job of developing the vast oil riches found off Hibernia.

The signing of those agreements was quite a feat, for the province and for this country. Now both governments and the petroleum industry know where they stand. It's now the job of the petroleum industry -- working closely with all levels of government -- to get on with the task of providing energy security for this province and for this country.

I would like to talk to you today about one of our most notable achievements of the past year, one which I have already mentioned, the Canada/Nova Scotia Offshore Agreement. The Agreement, signed between the Prime Minister and the Premier of Nova Scotia last March 2, was not only good for Nova Scotians, but good for all Canadians.

And it was good for the state of federal-provincial relations in this country. It was signed in a true spirit of cooperation, a spirit that will benefit every man, woman and child in this province for the next 42 years. And I'm proud of it.

Let me explain. Essentially, the Canada/Nova Scotia Agreement is a management agreement, a strong, cooperative pact between two governments to manage the development of oil and natural gas in the Atlantic and in the Bay of Fundy.

Under the terms of the agreement, Nova Scotians will become the principal beneficiaries of the development. It ensures that the needs of oil and gas consumers in Nova Scotia must be met before sales of offshore oil and gas are made to purchasers outside the province. And at the same time, both our environment and fishery will be protected.

The management regime established under the agreement will encourage vigorous, but orderly, development of the petroleum resources that lie off the coast of Nova Scotia. The energy found there, and the agreement reached last March, will give Nova Scotia a unique opportunity to construct lasting social and economic structures that will help this province build a prosperous future.

Specifically, the agreement has six major goals:

- (1) Increased energy security for all Canadians as a result of increased offshore exploration and development.
- (2) A major say in all decisions on management of the offshore through participation in a joint federal - provincial board and daily administration based in Nova Scotia.
- (3) Utmost protection of both the fishing industry and the environment;
- (4) Control by both levels of government over the pace of development;
- (5) A revenue-sharing scheme which provides Nova Scotia all revenues flowing to governments from offshore resources except the federal corporate income tax until the province reaches a standard of wealth higher than the Canadian average; and
- (6) More jobs and economic activity for Nova Scotians and Canadians, with first consideration given to Nova Scotia industry for the procurement of goods and services.

Under the terms of the agreement, Nova Scotia could benefit substantially from offshore resource revenues.

Some estimates have indicated that those revenues may total \$1.7 billion over the period 1988 to 1992, the period when production from our Sable Island gas fields is expected to reach full steam.

Industrial benefits and job opportunities for residents of Nova Scotia and all Canadians are among the key goals established under the agreement. Before companies can begin to work in the Nova Scotia offshore, they must make it abundantly clear just how the provincial and national economies will benefit.

The Canada-Nova Scotia Offshore Oil and Gas Board, set up under the agreement, will work closely with the federal agency, the Canada Oil and Gas Lands Administration (COGLA), to ensure that Nova Scotians and other Canadians get a full and fair chance for the jobs and business opportunities that become available. A COGLA office, established in Nova Scotia, will ensure that day-to-day administration of the offshore is done here. We hope provincial officials will be loaned to COGLA to help in this task.

The federal-provincial board is composed of five members -- three from the federal government and two from the Nova Scotia government. The Board has the power to make the important decisions on the management of offshore oil and gas resources, including the granting of new lands, negotiation of exploration agreements with oil and gas companies and approval of development plans.

It also considers company plans for dealing with economic benefits and the social impact of offshore oil and gas activity, and directs the administration of offshore exploration and development -- including the collection of most offshore revenues.

The two Nova Scotia board members have special rights and powers to ensure that specific provincial concerns are considered and resolved.

This Agreement is even more important in light of the start-up of our Government's Petroleum Incentives Program, which is providing direct payments to stimulate exploration and development, particularly in the eastern offshore and the North. Already, there is evidence that interest in our eastern offshore, particularly in waters off Nova Scotia's coast, is rapidly escalating.

In July, we announced that an all-Canadian consortium -- consisting of Petro-Canada Exploration Inc., Bow Valley Industries Ltd. and Husky Oil Operations Ltd. -- will spend \$500 million on a program to drill up to eight exploratory wells on the Scotian Shelf, approximately 30 kilometres north of Sable Island.

Given the high level of Canadian ownership and control of this consortium, it is highly likely that it will qualify for maximum PIP payments. In this case, eighty per cent of its exploration costs will be paid for by the federal government. Equally important is the Canada Benefits Plan submitted by the consortium, which will bring direct benefits and opportunities to Nova Scotians in the form of jobs and business opportunities.

The consortium is committed to maximizing the number of Canadians involved in its activities. For example, it is estimated that approximately 60 Canadians out of a complement of 104 will initially be employed on the consortium's drilling rig, and that this will rise to more than 93 by 1983. Bow Valley and the Canada Employment and Immigration Commission have signed a \$1.4 million agreement to train Canadians, particularly Nova Scotians, to work on drilling rigs.

In early June, my former minister, Mr. Lalonde, announced exploration agreements totalling \$263 million with a consortium consisting of Shell Canada Resources Ltd., Canterra Energy Ltd. and Norcen Energy Resources Ltd. Again, a Canada Benefits Plan for this work, to be carried out on the Scotian Shelf, has been submitted. It is estimated that there will be approximately 254 jobs available by 1984, roughly 246 going to Canadians and 214 of those jobs to Nova Scotians.

This is just the beginning of activity in the eastern offshore. We are in the exploration phase. Once development and production begin, there will be increased opportunities, particularly in the form of spin-off benefits for businesses not now directly involved in offshore petroleum development. The quick spurt of interest in the offshore illustrates the stimulus to exploration and development offshore Nova Scotia provided by the Canada - Nova Scotia Agreement and the Petroleum Incentives Program, both of which have been in existence for only a few months. The Agreement also provides certainty for oil companies such as Mobil, and will ensure more intensive investigation of the large potential of Sable Island gas, which could provide economic benefits to the province.

In our NEP Update released last May, the Government reaffirmed its commitment to encourage the construction of the Trans Quebec & Maritimes pipeline to bring natural gas from Alberta to eastern Canada -- but with one significant change. It had previously been assumed that Alberta's natural gas would serve this market. However, there have been delays in the pipeline construction, which means it probably won't be completed until sometime in 1986.

At the same time, there is a good prospect that Sable Island gas may be flowing as early as 1987. The proximity of these dates makes it obvious that serious consideration must be given to using Sable gas in the Trans Québec & Maritimes pipeline.

The Government has taken steps to fund some of the upfront costs of the TQM to ensure its financial viability. When upfront engineering and design work is completed, and further data are available from Sable, a decision will be made. Either way, it appears that residents of Atlantic Canada -- and in particular Nova Scotians -- could have natural gas service before the end of this decade.

The Government also announced measures in the Update to expand natural gas markets in Québec and the Maritimes. We have offered up to \$500 million to assist in the construction of lateral lines off the TQM pipeline. Assistance is being provided to help industries, businesses and private institutions to convert heating facilities from residual oil to natural gas. To help pre-build gas markets in the Maritimes, propane will be considered an alternate fuel under the Canada Oil Substitution Program.

There you have it. The Canada-Nova Scotia Agreement is working right now for the benefit of all the people of this province. And it is working to the benefit of the people of Canada. I believe it is a sound, long-range plan that will enable our governments to carry out the sensible, orderly, but wise, management of our offshore energy potential.

Through the programs initiated under the NEP, such as the Petroleum Incentives Program, our energy exploration companies will now be able to carry out the development needed on our offshore.

Nova Scotia is taking advantage of its energy strength. Canada is taking advantage of its energy strength. We are one of the few industrialized countries to produce more energy than we consume, and we have the capability to free ourselves from oil imports. With the National Energy Program in place, with the Canada-Nova Scotia Agreement in place, we can achieve self-sufficiency by the end of this decade.

Nova Scotians are saying "The time has come, let's do it." Canadians are saying "The time has come, let's do it." Together we will.

Thank you very much.

NOTES FOR AN ADDRESS
BY
THE HONOURABLE JEAN CHRÉTIEN
MINISTER OF ENERGY, MINES AND RESOURCES
TO THE FINANCIAL POST CONFERENCE
ON NATURAL GAS EXPORTS
WESTIN HOTEL
TORONTO, ONTARIO
FEBRUARY 23, 1983

CHECK AGAINST DELIVERY

The organizers of the conference have suggested that the theme for these remarks should be "Striking the Appropriate Balance".

It is a good theme. It applies to more than natural gas export policy; it could be the general theme for almost all the work done by governments who, in the policy making process, are often called upon to steer a middle course between disparate and sometimes conflicting interests.

It certainly is an appropriate theme for our efforts to promote natural gas production and market expansion. We have to keep in mind the views of the many interested parties: gas producers, large and small; carriers and distributors; producing provinces and potential producing provinces; non-producing provinces; gas consumers and other Canadians.

Fortunately, we have a strong base from which to start. Over the last decade, the natural gas industry has been one of the great Canadian success stories. Only about 10 years ago Canada's proven reserves of natural gas were somewhat smaller than our reserves of conventional oil. As recently as July 1975 our regulatory agencies were warning that Canada could have faced a shortage in natural gas if new supplies were not found - and quickly.

Today we are faced with a completely different story. Since 1976, the gas industry's success - supported by generous incentives at both federal and provincial levels - has led to a growing surplus of gas in Canada. Our reserves of natural gas are growing steadily, helping to assure Canada's energy future in a world where memories of energy shortages, are fresh.

The National Energy Board now estimates that we have marketable gas reserves of over 2 trillion cubic metres (76 trillion cubic feet) of gas in conventional producing areas alone. The country's remaining ultimate marketable gas potential, including gas in our frontiers, is estimated at over three times currently established reserves.

Indeed, we have become the envy of the western world. However, we also realize that excessive accumulation of new reserves can cause real financial problems for the industry. Having spent time, effort and money on exploration and development, many of our companies - particularly smaller, Canadian-owned companies - are being frustrated by market limitations. The challenge facing us now is to find markets, both in Canada and abroad.

Therefore, as a Government we are taking unprecedented steps to give Canadians strong incentives to become gas consumers. With our strength in natural gas, I think we are succeeding in our efforts to become self-sufficient in oil.

In fact, the International Energy Agency has singled out Canada as having one of the best track records among the industrialized countries taking steps to reduce our dependence on imported oil.

I think it's useful to quote the Agency.

So far, only a few countries have developed specific policies to promote fuel switching. Canada, with the "off-oil conversion programme" of October 1980, is the only OECD country to adopt a comprehensive substitution policy covering all appropriate end use sectors through oil reduction targets and financial assistance.

What are some of the specific actions we are taking as a government to provide our gas producers with every reasonable chance to sell their product on the Canadian market?

Let's turn first to the largest and still virtually untapped-market for gas: Québec. In the Natural Gas Laterals Program the federal government is financing \$500 million of pipeline expansion. Over the next three years, we hope that Gaz InterCité Québec will construct more than 680 kilometres of laterals to reach large new markets in that province. And when these new lines are completed, we expect that an additional 1.6 billion cubic metres (56 billion cubic feet) of western natural gas will be consumed each year.

To complement our efforts in the Laterals Program, we also launched last November the Gas Marketing Assistance Program, a \$100 million program to minimize gas contracting risks for Québec distributors.

Last year we also funded more than 380 projects under the Distribution System Expansion Program, a program which helps distributors finance expansion to their pipeline network. We estimate these projects could displace 380,000 cubic metres (2.4 million barrels) of oil each year.

Since its inception, the Canada Oil Substitution Program has provided close to 360,000 Canadian energy consumers with funds to convert off oil; of this number more than 130,000 have chosen natural gas. This program helps the gas producer. It helps Canada achieve self-sufficiency. And it provides a stimulus to the economy.

We are also keeping our commitment to maintain the wholesale price of gas in Eastern Canada at about 2/3 of the price of oil. Last year the average gas/oil parity in eastern markets was 64 per cent. Aside from a level of 62 per cent reached in 1981, it was the lowest level in at least 25 years.

And earlier this month, the government took another major step in honouring its pricing promise, a step which has benefitted both the Canadian consumer and you - the Canadian gas industry.

I'm referring to the 18 cent reduction in the Natural Gas and Gas Liquids Tax, or the NGGLT. This reduction kept prices in new Eastern Canadian gas markets at approximately 65 percent of crude oil. With this tax cut, we are keeping our promises to Canadians.

The tax cut also means that, although gas producers benefitted from the Alberta Border Price increase with an additional \$235 million in increased cash flow, consumers east of Alberta will feel only minimal effects of those rising costs. It also means lower consumer prices in British Columbia and Alberta.

Where has all this gotten us? Natural gas now heats more homes in Canada than any other fuel. Indeed, of the more than eight million residences in Canada today, some 3.4 million homes, or 41.4 per cent, are now heated by natural gas.

Notwithstanding the effects of economic slowdown, and conservation efforts, 1982 Canadian gas consumption rose by about three per cent over 1981. Those at the marketing and distribution end tell me our programs are working - without them sales could well have declined.

I'm pleased to see the Canadian Gas Association (CGA) agrees with me. In its Canadian Residential Heating Survey 1976-1981, the CGA said:

Natural gas has traditionally added the majority of new customers through new housing construction. However, since the introduction of the NEP in 1980, conversions increased considerably.

And we are still trying harder: I recently announced the Industrial Conversion Assistance Program, or ICAP - a program that will meet up to 50 per cent of the cost of converting to natural gas those fuel oil furnaces and boilers which are in industrial, commercial, and private institutions. We also want to boost gas sales in our industrial market by reducing levels of heavy fuel oil, especially in eastern Canada. And two weeks ago I launched a program of assistance to promote use of Compressed Natural Gas (CNG) in motor vehicles. This assistance is in the form of grants to service station operators and motorists who wish to burn CNG as a vehicle fuel.

So, the incentives are there. The challenge now rests with the gas marketers to take advantage of these incentives. Together we can find Canadian markets for this all-Canadian fuel.

At this point, let me make a special effort to avoid any misunderstanding. I would not want to suggest that we are giving up on domestic oil as a major source of future energy in Canada. On the contrary, oil will probably remain the largest single source of primary energy in Canada in 1990.

But increasingly, its use will be concentrated in the transportation sector, and as heating and industrial fuel in parts of the country not served by gas.

Oil produced in Canada - be it from conventional or non-conventional sources - will play a major energy role in Canada's future. But we can't put all of our self-sufficiency eggs in one basket, as we tended to do in the past. With our large, proven reserves of natural gas, it is in Canada's interest to create and sustain a strong domestic market for natural gas, and thus, reduce the demand on our oil reserves.

For these two days, however, you are here to talk about a critical aspect of our natural gas industry - and that is exports. If natural gas is to continue to be a cornerstone of Canadian energy self-sufficiency, we will need continued assurance of supplies. This also means the continuance of a strong and vital gas industry, since I recognize the importance of revenues from gas exports in ensuring adequate gas supplies for future generations of Canadians.

I know that exports of natural gas have not been without controversy in Canada. Particularly, since the 1973 OPEC oil shock, some Canadians have questioned the wisdom of selling off supplies of non-renewable resources. Some are worried about selling our more accessible gas only to have to replace it with higher-cost, frontier supplies.

There are others who worry about Canada's balance of payments if exports were suddenly cut back. And you - members of the gas industry - have argued very persuasively that we must sell more gas to finance our exploration activity, to find even more gas and oil.

Whatever the answer is to those questions, no matter where you stand on the issue, one overriding fact remains: Canadians have clearly shown to our existing and potential customers in other countries that we are reliable suppliers of natural gas.

Since the 1950s, when small amounts of Canadian gas were first exported to the United States, Canada has built an excellent track record south of the border as a gas exporter. Our exports have risen from a total of 3.1 billion cubic metres (109 billion cubic feet) exported in 1960 to more than 22.5 billion cubic metres (795 billion cubic feet) 20 years later.

Over the last year you have been engaged in a series of hearings to seek authorization to extend these exports into the future. My colleagues and I have recently received the results of these deliberations by the National Energy Board (NEB).

I want to take this opportunity to thank the members of the NEB for the thorough hearing they provided to all applicants and for their carefully considered Reasons for Decision. Through public processes such as the Gas Export Omnibus Hearings, all Canadians become more aware of the vital role the natural gas industry plays in the economic life of our country.

It is now up to the government to decide whether to accept or reject the Board's recommendations.

As you know, the Government of Canada has made it clear over the past several years that we realize the potential benefits of gas exports. In our energy agreements with the gas producing provinces, we agreed to authorize gas exports if the NEB found a surplus.

Last May, when we updated our energy program, we also stated we were receptive to projects that would diversify markets for natural gas. And in line with our Canadianization objectives, we also said we hoped gas exports could be a vehicle for assisting small gas-producing companies, many of which are Canadian owned.

In reviewing the NEB's report, we saw tangible evidence to help us realize our policy goals. Let me review for you aspects of the report that we regard as particularly significant.

To begin with, we saw that the new export volumes could provide close to \$10 billion in revenue to the Canadian gas industry during this decade. This revenue could enable the industry to expand its already successful exploration and development activities. And some of the licences could bring revenue flows to small, Canadian gas producers, who have been particularly hard hit by the problem of shut-in gas.

In addition, new gas exports could generate close to \$5 billion in new investment in the construction of an LNG plant in British Columbia, and to expand both the Westcoast and TransCanada PipeLine systems. In turn, this construction of new facilities could generate some 14,000 person-years of new employment across the country.

When we include the investment required for gas exploration and development and for the construction of gas production facilities in Alberta and British Columbia, we have been told we could expect a total of close to \$10 billion in new investment and more than 30,000 person-years of employment over the next seven years.

My colleagues and I were very encouraged by the Board's recommendations concerning the Western LNG Project. The project offers prospects for a new gas trade relationship with Japan. It follows on the initiatives of the Prime Minister last month to demonstrate to the Japanese our interest in expanding trade with them. From a gas producers' viewpoint, I think you too would welcome the potential for market diversification.

My colleagues and I were also very pleased with the commitments made by Dome on industrial benefits to me and the Minister of Regional and Industrial Expansion.

We look forward to the company vigorously pursuing these undertakings. The evolution of the LNG market promises to hold significant new benefits for Canadians - especially in light of our great potential for natural gas on the Canada Lands.

These are just the obvious, most direct benefits that these gas exports could bring. New investment in the gas industry spills over into other sectors of the economy as well - for example, the steel industry. Labour-intensive services and supply sectors benefit.

The Canadian Association of Oilwell Drilling Contractors estimates that the drilling of a single 2000-metre well creates 536 person-days of employment. With new exports, work would be created for drilling contractors; servicing rig companies; catering and trucking firms; cementing, testing and well-logging contractors; pipe inspection companies; and component suppliers and consultants.

Therefore, I am pleased to be able to tell you that, with all these possible benefits in mind, the Government of Canada has decided to approve the new licences authorized by the National Energy Board.

I view my announcement today as an important and necessary step so that the resolution of other outstanding matters can proceed. Other government approvals, both in Canada and abroad, and financing arrangements are still required. The Government of Canada does not want to stand in the way.

However, I think we should all be realistic and take a balanced view about the short term prospects for additional revenues for the Canadian gas industry. The fact is the export market is weak at the moment, and there is little hope of major increases to existing sales in the short run.

The world oil glut, which was brought on by the world-wide recession, by greater conservation efforts, and by more people opting for cheaper, alternative fuels, has created a state of flux in the world energy market. Indeed, the dust hasn't settled yet. And, the U.S. situation - which interests us here today - is particularly uncertain.

I have spent considerable time talking to representatives of both the Canadian and U.S. gas industry over the last few months. Thus, I am well aware of developments in natural gas markets south of the border.

Certainly, the severe economic slowdown of the past several months, the ongoing process of conservation, and the mild winter currently being experienced in many parts of North America, have all contributed to a substantial decline in the demand for gas. But as I understand it, this problem has also been seriously compounded by the sharp increase in the price of U.S. domestic gas, under the umbrella of the U.S. Natural Gas Policy Act of 1978.

This has led in turn to a significant loss of industrial markets to competing energy sources such as residual fuel oil and coal.

I am also well aware of the criticisms from the United States that have been directed against Canada's gas export price. As a politician, I understand why some politicians south of the border have singled us out as the foreign villains who are responsible for rising prices at the burner tip.

But the facts are clear: the price of Canadian gas has remained unchanged for nearly two years. Our ability to "help out" the Americans with their pricing problem is limited: Canadian gas constitutes only about four per cent of U.S. consumption - more of course, in some regional markets. I do not think that it is helpful in finding sensible solutions to this complex problem to blame Canada for the rapidly increasing prices of gas in the U.S.

Having said that, however, I hasten to add that Canada values the U.S. market for our gas, both now and in the future. Over the past 30 years, the United States has relied on Canadian gas. Given forecasts of future American supply shortages in the late 1980's and early 1990's, the U.S. undoubtedly will continue to rely on Canadian gas - perhaps to an even greater extent - in the future. I think it's clear both countries have benefitted from our gas trade.

Against this background of short-term deterioration of U.S. markets and increasing competition from other forms of energy, we in Canada are prepared to review the concerns that have been expressed about our export price.

But the process of review is extraordinarily difficult. The U.S. natural gas market is in the midst of an agonizing adjustment process. With the talk of "de-regulation" and "re-regulation", we are uncertain how and when those adjustments will take place. I am aware that the whole energy business in the U.S., including the natural gas business, seems to be undergoing some radical changes. We are working hard to come to grips with what that means for us, and our gas marketers.

As Canadians, we must also do some soul-searching, for there are some pertinent questions involved.

For instance, what are the objectives of our gas export pricing policy? Do we wish to, or can we compete with all gas supplies in the United States when much of that gas is price controlled? Is it sensible, or even practical, to compete head-to-head with low-cost alternatives such as heavy fuel oil? Isn't Canadian gas an alternative to OPEC oil imports into the U.S.?

We in the federal government are engaged in close consultations with the provinces concerned at both the Ministerial and officials level, and with industry representatives. And as many of you know, Premier Lougheed will be meeting with Prime Minister Trudeau at the end of this month to talk about, among other things, gas export policy. We are also engaged in discussions with the United States Administration and with Congressional leaders through a number of channels.

I am by no means certain what the answers are to these complex problems. I can assure you of one thing, however: they are being addressed with care and sensitivity, since our revenues from natural gas exports are benefitting all Canadians. The U.S. market, notwithstanding our desire to diversify, will remain the central focus of our gas export trade.

I am determined as Minister of Energy, Mines and Resources not only to do everything possible to protect those export revenues during this period of economic troubles, but to lay the foundation for future growth.

In summation, I would like to add that any discussions of export pricing cannot be concluded without some mention of the proposed formula governing the sale of gas in the Western LNG project.

I want the project sponsors, and our Japanese buyers, to know that I consider the proposed formula for determining the price of LNG landed in Tokyo a creative and innovative one for the type of project envisaged in the licence.

With that project, however, I am aware that there are still questions to be resolved within Canada in connection with distribution of risk. I intend to stay closely informed about the progress of discussions that I understand Dome will be having with producers, and the gas producing provinces.

Another issue that will require realistic assessment is the impact on Canadian gas producers and consumers of the costs of pipelines to transport gas to market.

Last July, the NEB made us aware of the sky-rocketing costs of pipeline construction in recent years. Higher construction costs can mean higher costs to consumers and lower netbacks for producers. For this reason, I look forward to receiving and considering the report of my Special Task Force on Pipeline Construction Costs. I understand that the gas industry has been most co-operative in the work of the Task Force and I trust that, working together, we can come up with innovative ways to reduce such costs.

I also support strongly the concern expressed by the National Energy Board about the need to maximize use of existing pipeline facilities. I will be observing with interest the Board's review of the allocation of TransCanada's costs that it proposes for that company's rate hearings. I am concerned that Canadian consumers not be burdened unfairly with the cost of new export-related facilities.

It's clear that a lot of work remains. The approval of these exports comes at a difficult time in the Canadian and world energy markets. I began my remarks declaring the need for striking an appropriate balance. This balance must not only be struck in terms of reasserting our export policy: it also must be realized by striking a balance between optimism and pessimism, by being realistic about the future.

Our export policy must be geared to the future. It must encourage the export of surplus Canadian gas. It must also provide a fair price to producers and governments. We are looking to the gas industry, and to the producing provinces for advice and assistance.

There are many challenges to face in the export of Canadian natural gas, but on balance I am optimistic. We have an industry in a position to build on its successes. We have very aggressive and innovative gas marketers.

Our customers in Japan and the United States have told us, most emphatically, that there will be a need for our surplus gas. And we have a strong Canadian energy market that is learning about the benefits of gas. The outlook for the Canadian gas industry is positive indeed.

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NOTES FOR AN ADDRESS

BY

THE HONOURABLE JEAN CHRETIEN
MINISTER OF ENERGY, MINES AND RESOURCES
TO THE CALGARY CHAMBER OF COMMERCE

CALGARY, ALBERTA

APRIL 11, 1983



Check against delivery

I accepted with pleasure the invitation to address your general meeting. This occasion gives me a chance to speak not only to representatives of the oil and gas industry but also to those of you who have a direct interest in energy-related businesses and industries.

When I asked to be assigned to the energy portfolio, I knew it would be a challenge. It was a challenge I found particularly attractive, for the central issues in the energy portfolio go to the heart of the way we see our country and how we see our country in the world.

I knew also that the past two or three years have been unsettled - not only in energy terms, but in terms of visceral questions such as the Constitution - and I believe that it's now time for reconciliation, for settling down, for healing, renewal, and stability. Nowhere has this been more important than in energy.

I've made that my objective - I've made that clear in the dozens of meetings I've had with people across Canada, and particularly in this city. I have been gratified at the degree of willingness on the part of the industry across the country to work with me so that we can achieve the objectives we established for ourselves:

- energy security, which means not having to depend on imported oil,
- fairness, which means sharing in a truly Canadian way the energy benefits and burdens,
- opportunity, which means having Canadians here and elsewhere play a growing role in their energy industry.

These challenges need a cooperative response - cooperation between governments, and between governments and industry. As I'll note in a minute, we've had some tremendously successful cooperative efforts, especially here.

The story of consultation and cooperation in the west has been a happy one. Since I became the Minister, I've met on several occasions with Mr. Zaozirny, and I'm delighted to see that we share many of the same perceptions and concerns about a range of issues. We've spent considerable time, for example, on the challenge of bringing on more oil from non-

conventional sources. We both understand the private sector's hesitation to proceed with costly, technically difficult schemes at the time when the world environment is so uncertain, and when the cash flow outlook is not as buoyant as in the past. Yet we agree that new oil projects are important to Alberta and to Canada - from both an energy and economic point of view. That's the spirit in which we're considering what the two governments should do to provide further incentives to enhanced oil recovery, for example, and we hope to be in a position soon to go public with this.

There's another area where a cooperative approach is essential, and I intend to take it. The energy world has changed since the September 1981 agreements were signed. Prices aren't working out the way any of us expected. The sharing of the burdens and benefits has to be re-examined. And this is not a matter for confrontation - it's a Canadian problem, to be solved by Canadians in a Canadian way. I have heard Premier Loughheed's remarks about the pricing agreement, and, while I don't necessarily accept them, I see them as a basis for reasoned discussion. So I'll be spending a great deal of my time on this issue during the next few months - to see if a balanced response - reflecting the interests of producers, governments and consumers - can be found. My objective is to resolve this issue by early summer. If the spirit of cooperation and conciliation I have seen so far in my months as Energy Minister can be maintained, I know we can do it.

Let me turn now to another subject of shared interest and concern - natural gas. I'm talking about an industry that earns from exports alone over four and a half billion dollars a year, and creates thousands of jobs, here and elsewhere in Canada. Thus, the decisions we make on questions such as gas export pricing, touch the lives of many Canadians.

Understandably, the strength of the natural gas industry and its ability to sell into both the export market and the domestic market is of great concern to me. Unfortunately, the Canadian gas industry has not been able to escape many of the problems being faced by industries world wide. The effects of high interest rates, the economic recession, and declining consumer demand have been felt in Calgary as well as in Detroit.

Now, the industry faces another challenge - the current instability of international oil prices.

Some are concerned that the recent, radical changes in world energy markets are turning traditional energy relationships upside down. Canada has not been isolated from the impact of these changes. Over the past three years, the Government of Canada has introduced a number of measures to encourage Canadians to lessen our dependence on imported oil.

Since the launching of the Canada Oil Substitution Program, many Canadians have switched to gas from oil in the expectation that gas will be attractively priced. They are now asking themselves whether this will continue to be the case.

I firmly believe our oil substitution efforts continue to make sense. Canada's hydrocarbon resource strength lies in natural gas relative to conventional oil. Our policy must continue to ensure natural gas and oil producers adequate incentives to explore for and develop petroleum resources. Consumers must be assured a fair price to promote natural gas use so that our oil can be reserved for those sectors where substitution is not possible. We confirmed our commitment to this view when we reduced the natural gas tax on February 1 to effect a gas-oil ratio of 65 percent in the expanding Eastern Canadian market. I regard it as a priority to address in the coming months ways in which our objective of increasing the market share of gas in Canada can be realized.

Changing energy relationships have also had a dramatic impact on gas producers and consumers in the United States. Last week, I visited Washington and I was able to hear first hand about some serious distortions in the United States gas market.

There, gas prices are rising while demand is falling; pipeline companies are for the most part in a seriously "over-bought" position and significant volumes of U.S. gas are shut-in. Gas sales are being lost, particularly to fuel oil in the industrial market, because of high prices.

To understand the significance of these distortions, we should remember what the U.S. gas market looked like only seven years ago. At that time, total demand for gas was over 20 trillion cubic feet per year and growing, largely because natural gas was priced well below oil in all market sectors. On the other hand, production from reserves in the Lower 48 States was declining rapidly. The U.S. faced - or so it seemed at the time - serious and permanent shortages of

natural gas. In fact it has only been during the past two years that U.S. pipelines have been able to end the curtailments of gas deliveries to their customers.

The American system responded to the problem of gas shortages with typical vigour. Congress enacted legislation in 1978 which provided high incentive prices for new gas, and tried to foresee price levels through 1986. Gas purchasers, such as the interstate transmission companies which buy much of our export gas, were ready to contract for every available foot of new domestic gas which could be delivered. Gas explorers and developers embarked on the biggest-ever boom in industry activity. And frightened consumers turned from the gas shortages of the mid-70's to alternative fuels.

Thanks to recession, conservation, fuel switching, an exceptionally mild winter and rapidly-escalating prices, U.S. demand for gas is now down to just over 18 Tcf. Gas supply trends have been reversed, at least for the moment, and a surplus of annual productive capacity has appeared, estimated at 2.2 Tcf and growing. Imports of Canadian gas have fallen to about 75 percent of their peak in 1979. Last year, we were able to export only half the volumes of gas authorized for sale in the U.S. In 1983, many Canadian gas exporters are being told by their U.S. customers that takes of gas will be reduced even further.

With a growing surplus and declining demand, some U.S. importers are apparently finding it increasingly difficult to abide by the terms of their gas purchase contracts. Because of the level of Canadian investment in field facilities and pipelines underlying these contracts, the suggestion that minimum takes in all contracts should be renegotiated downward is of grave concern to me.

So I am encouraged to learn that the U.S. is trying as a matter of priority to come to grips with its chaotic gas market situation. However, while there may be agreement in the U.S. on the urgency of the problem, there is no agreement on the best solution.

Energy Secretary Hodel made it clear to me that the U.S. Administration believes the answer to the market problem is to end the system of price controls on gas production. However, it is clear that resolution of the market problem through legislation will not be simple.

Within Congress, there are those proposing re-control of gas prices as a better solution. These Congressmen wish to see prices frozen or even rolled back in order to protect consumer interests.

While the debate is carried on, the current climate of uncertainty - with its negative effects on Canadian exports - is likely to continue.

Obviously, this is of concern to Canada. Because we provide only 4 percent of the total U.S. gas supply, it is difficult to see how any actions we might take could be of much help to the U.S. in resolving its dilemma. Nevertheless, I am very aware of claims from some U.S. interests that our export price is adding to difficulties in their market. More important, the U.S. has been and will continue to be a valued market for surplus Canadian gas. For this reason, the role of pricing in our overall gas export marketing strategy is under careful scrutiny.

The setting of the export price is a responsibility of the Government of Canada. However, the revenues from gas exports are very important both to the industry and to the producing provinces. We have a common interest in seeing a strong gas export market. For this reason, in late 1982, I initiated a federal-provincial consultative process on natural gas exports.

The Federal-Provincial Task Force on export pricing and my own meetings with my provincial counterparts have been an excellent example of how successful dialogue can be. We have all learned that there are no easy answers to the problems created by rapidly changing world energy markets. But, with the co-operation of the Governments of Alberta and B.C. and with the support of the natural gas industry, we have been working together productively toward a common goal.

This process of discussion has also been extended to the United States. Earlier this year, the Canada-U.S. Energy Consultative Mechanism began what I hope will be an on-going series of meetings. I also hope to meet again with Secretary Hodel in the near future.

My meetings last week with Secretary Hodel and with the chairmen of the Senate and House of Representatives Energy Committees and with other Senators and Congressmen confirmed in my mind that the interests of our two countries are very much the same. We share some of the same problems - consumer

concerns over energy prices, particularly natural gas, and the loss of important industrial gas markets to residual fuel oil.

The Americans have made clear, as a member country of the International Energy Agency, their commitment to energy security. We share the same goal - a secure energy future and a re-affirmation to the long term. I came away from Washington convinced that, the U.S. wants Canada to continue to serve as a supplier of natural gas. And I came away convinced that our discussions cleared up a lot of misconceptions on both sides and will help contribute to the development in both countries of policies which will take into account the interests both of Canada and the United States.

How then should Canada act to secure our gas export markets in this difficult time? It has been the policy of the federal government for some years to link the price of our gas exports to the cost of oil imports to Canada. From the U.S. point of view, Canadian gas is a long term, reliable alternative to OPEC oil. The U.S. accepted our oil substitution pricing policy in 1980 through an international agreement, commonly called the Duncan-Lalonde formula on gas export pricing. From the beginning, we have implemented the formula in a flexible way.

The formula has worked well for both Canada and the U.S. Canadian export revenues increased by about 60% between 1979 and 1982. Yet, when oil market forces were driving the price of American deregulated gas to \$10/MMBtu, Canadian gas continued to be priced below the cost of U.S. oil imports.

This does not mean our export price cannot change. On the contrary, the agreed mechanism can cause the price to rise or fall depending on changes in the world oil price. As you all know, world oil prices have fallen over recent months. I am therefore announcing that Canada will honour its agreement with the U.S. and we will adjust our border price to reflect the oil price drop. Thus, as of midnight tonight, our natural gas export price will drop by 11 percent, from U.S. \$4.94 per million British thermal units (MMBtu) to \$4.40/MMBtu.

Through this action, we hope to make it clear to our U.S. customers that we are willing to respond to international energy market conditions. Our action may be of some help to consumers in regional markets of the U.S., where Canadian gas makes up a significant proportion of total supply.

However, I recognize that a drop in our border price will not solve the U.S. gas market problems as a whole, nor is it intended to. In the current American market for natural gas, I believe realistic objectives are to try to protect long term revenues for Canada by preserving gas market share and, where possible, to make new sales. It may well be that to achieve these objectives - and to continue our gas market expansion efforts in Canada - new, innovative marketing approaches are needed in both markets.

In this regard, we are watching with particular interest proposals by U.S. pipeline companies to capture or regain industrial gas markets through special, incentive price structures.

I have been approached by the producing provinces and our own industry regarding a volume related incentive pricing concept similar to these U.S. schemes. The principle of volume discounting as an additional means of contributing to our efforts to maintain and expand markets in a very difficult and rapidly changing U.S. gas environment is one which I find very attractive.

Simple as such a concept may sound there remain a number of issues which must still be resolved in order to ensure that such a scheme best meets the common objectives of the industry, the federal government, and the producing provinces.

I would want to be assured that both Alberta and B.C. producers would benefit equally; I would want to be assured that such a scheme would reward export performance and would avoid further erosion of export volumes; I would want to be assured that Canadian exporters do not end up competing against each other in U.S. markets.

Therefore I have instructed my officials on an urgent basis to finalize discussions with the industry and the producing provinces and to report back to me within four weeks so that I can make a recommendation to my Cabinet colleagues.

I am satisfied that in the long run Canadian gas will have to be competitive if it is to be sold in the U.S. But I am also satisfied that the United States recognizes the need to pay a premium for secure long term supplies.

What we are trying to do now is to overcome short term difficulties in the U.S. market which may last for the next two heating seasons. It would be difficult at

this time to formulate a long-term marketing policy while the U.S. market environment is still so unclear. Both our countries have a stake in finding a way through the present soft market period. Massive investments have been made in Canada - close to \$1 billion in the Alaskan Natural Gas Transportation System Prebuild alone - so that the U.S. might have long term access to reliable natural gas supplies. I do not want to see the health of the Canadian gas industry jeopardized through further erosion of export sales volumes and that is why I have announced new measures today. But it should be clear that the degree of flexibility that Canada will show on export pricing will be influenced to a great extent by the manner in which U.S. importers and Congress observe the sanctity of existing international contracts.

The steps that I have outlined today - a drop in our border price and the development of new marketing initiatives - will not yield immediate results. We must recognize that, in the face of complex international energy changes, 1983 could be a difficult year for the natural gas industry. For this reason, I believe it is essential to continue the productive dialogue the federal government has begun with the producing provinces and with industry. We must continue to watch closely developments in the Canadian gas market to ensure the preservation of markets and the protection of the Canadian consumer against price increases which cannot today be justified as they once might have been.

In spite of the problems, we have many strengths to build on. We have large energy resources, we have an industry with a proven track record and, most important, we have a genuine willingness to work together. As Minister of Energy, I want to once again emphasize that the federal government is committed to ensuring a strong Canadian petroleum industry which can progressively develop our large resource base in the interest of our national economic and energy well-being.

PRESS BACKGROUNDER
CANADIAN GAS EXPORT PRICING

Responsibility for Export Pricing

As a result of amendments that were made to the National Energy Board Act during 1982, the responsibility for establishing gas export prices rests directly with the Governor in Council. Prior to these amendments, the National Energy Board had the responsibility for reviewing export prices and making recommendations to Governor in Council for changes to the price.

History of Export Pricing

Prior to 1975, the price at which Canadian natural gas was exported to the U.S. was determined by contract between the buying and selling companies. These prices were monitored by the National Energy Board. During the period 1973-74, the Board became concerned that the selling prices of Canadian gas exports under existing licences were falling behind the equivalent world oil prices then prevailing in international trade. Thus the Board issued a report in July 1974 recommending that the selling price of Canadian gas exports under existing licences be increased from the prevailing \$0.55/MMBtu to \$1.00/MMBtu effective January 1, 1975 (from British Columbia, effective November 1, 1974). Subsequent reports recommended further increases in export prices as indicated in the following table. Also included in the table is the price decrease, effective today.

<u>Canadian Gas Export Prices</u>	
<u>Export Price</u> <u>(\$/MMBtu)</u>	<u>Effective</u> <u>Date</u>
1.00 (Cdn.)	January 1, 1975
1.40 (Cdn.)	August 1, 1975
1.60 (Cdn.)	November 1, 1975
1.80 (Cdn.)	September 10, 1976
1.94 (Cdn.)	January 1, 1977
2.16 (U.S.)	September 21, 1977
2.30 (U.S.)	May 1, 1979
2.80 (U.S.)	August 11, 1979
3.45 (U.S.)	November 3, 1979
4.47 (U.S.)	February 17, 1980
4.94 (U.S.)	April 1, 1981
4.40 (U.S.)	April 11, 1983

In 1976, the Board recommended a range of export prices based on commodity value in the various markets served. However, the U.S. opposed the idea of differential pricing implicit in the commodity value pricing mechanism, on the grounds that differential pricing was an extension of Canadian jurisdiction beyond the international boundary and that it was discriminatory among U.S. distributors. Canada thus retained the single border price approach.

In 1977, the Board introduced the concept of "substitution value". Under this system, the value of Canadian gas exports is tied directly to the cost of Canadian oil imports. This reflects a policy approach that Canadian gas sold for export could be used to back out imported oil, and that its value should therefore be determined by oil import costs.

Canada—United States Understanding

In March 1980, Canada and the United States reached an Understanding on Natural Gas Export Pricing. It consisted of an exchange of letters between the then Secretary of Energy, Charles W. Duncan and the Minister of Energy, Marc Lalonde. This Understanding, commonly called the Duncan-Lalonde formula, endorsed and formalized the substitution value concept, but also paid regard to the competitive position of Canadian gas in U.S. markets.

The Understanding operates on the basis of several principles:

1. the export price is measured monthly;
2. the export price is not amended unless the substitution value indicates a change in the price greater than \$US 0.15;
3. the United States is notified of a price change before the 15th the month; and
4. the price change becomes effective 90 days after the measurement date (i.e., 75 days after the notification date).

The only price increase that took effect under the Duncan-Lalonde formula was on April 1, 1981. Calculation of the export price according to the oil substitution concept is shown in the following table.

		<u>Substitution Value Calculation</u>			
		<u>1 March 1983</u>		<u>1 April 1983</u>	
		<u>\$US/Bbl</u>	<u>\$US/MMBtu</u>	<u>\$US/Bbl</u>	<u>\$US/MMBtu</u>
1.	FOB Oil Price	31.23	5.39	27.73	4.78
2.	Less: Adjustment factor		.22		.22
3.	Plus: Average Transportation Cost to U.S. Border		.38		.39
4.	Equals: Oil Substitution Value		5.55		4.95
5.	Export Price		4.94		4.40

The new export price of \$4.40/MMBtu reflects Canada's traditional flexibility in not pricing at the full oil substitution value. In addition, the price is favoured by the producing provinces and the industry. The 75-day notification period has been waived for the current price change.

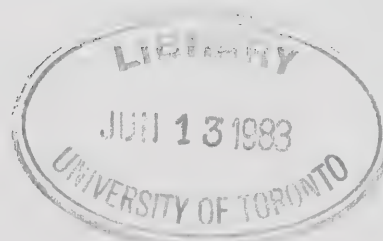
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NOTES FOR AN ADDRESS
BY THE HONOURABLE JEAN CHRÉTIEN
MINISTER OF ENERGY, MINES AND RESOURCES
TO THE EMPIRE CLUB
ROYAL YORK HOTEL
TORONTO, ONTARIO

APRIL 14, 1983



I am pleased to be here to speak about some of the critical issues with respect to energy policy in Canada today. Earlier this week in Calgary I reminded people that the past two or three years have been unsettled, not only in energy terms, but in terms of visceral questions dealing with the fundamental nature of our country — from the Quebec referendum to the long, drawn-out constitutional debate. And as a country we resolved those issues very well.

I believe that it is now time for reconciliation, for settling down, for healing, for renewal, and for stability. And this is the objective I have been pursuing in my role as Energy Minister over the last seven months. I must say that I am particularly gratified by the degree of willingness on the part of the industry across the country, and on the part of the producing provinces to work with me to meet the objectives we have established for ourselves and for our country, namely:

- 1) Energy security, which means not having to depend on imported oil;
- 2) Fairness, which means sharing in a truly Canadian way the energy benefits and burdens;
- 3) Opportunity, which means having Canadians play a growing role in their energy industry.

Meeting these energy objectives is not an easy task. It will require the co-operation of industry, of governments of producing provinces, of governments of consuming provinces, and of consumers in general. In the past, our policies as a Federal government have been controversial. I do not intend to dwell on the controversies. Rather, I would like to reflect briefly on one major aspect of our policies — that of oil and gas pricing — and then I want to speak about where we go from here in this regard.

In a very real sense, the world as we knew it changed abruptly in 1973-74. The shock of OPEC price increases beginning 10 years ago changed the international economic order and has been the major contributing factor in our weak economic performance, including high inflation and high unemployment around the world.

Over the course of the last 10 years, the Government of Canada made a conscious effort to protect Canadian industry and consumers against extraordinarily sharp increases in international energy prices. We have tried to ensure a gradual adjustment to higher prices. And in order to do this, the producers and the producing provinces have had to forego revenues which would otherwise have accrued to them.

In terms of protection to the consumer from the shock of rapidly rising energy prices, our policies over the last 10 years have been very successful. Since the inception of our pricing policies, the cumulative benefits to the consumer, as measured by the difference between world prices and ours, is \$46 billion. To the average household, this has meant a saving of \$1,850 in heating oil and gasoline costs, while the average farmer on the Prairies, for example, has saved \$8,200 on his oil costs. Over the same period, the Canadian airline industry has saved at least \$1.3 billion. And, in the last five years, a Canadian world-scale petrochemical plant using oil as a feedstock has saved \$525 million.

These then are a few examples of concrete consumer and industrial benefits from our policies. Moreover, we are doing more than any other major country to give oil consumers an opportunity to switch to cheaper and more plentiful energy sources such as natural gas and electricity.

These benefits to the consumer accrued during a period when the oil industry's cash flow was steadily increasing, and when revenues of producing provinces were growing by leaps and bounds as a result of steadily increasing prices. Now the world situation has again changed drastically.

What were the expectations when we installed our present pricing system back in September 1981? The framework assumed steady growth of international oil prices through the course of the 1980s and 1990s. When these policies were put into place in 1980 and 1981, this view was held not only by the Federal government and the government of Alberta but by virtually every analyst closely involved in decision-making in the energy industry in Canada and abroad. The best advice we had two years ago -- and it was nearly unanimous around the world -- was that oil prices were going to continue to rise significantly.

But as you are well aware, over the past eighteen months conditions in the international oil marketplace have changed dramatically. Not only have rapid increases been halted, but international prices have begun to decline by significant amounts.

Since I do not have a crystal ball, I will not try to predict what will happen to world prices over the next few months or the next few years. I will not get into the game of forecasts. However, I would say that we are likely to be in for a period of continuing uncertainty especially over the next few years.

Changes in both the perception and reality of international oil markets have led to a number of anomalies in our current policy framework. It certainly appears to me that the fairness of our current system has been affected by declining world oil prices. The deal worked well while oil prices were rising, and, even when that rise was halted, the basic objectives of our system remained fundamentally intact.

Lower world oil prices, however, have produced problems that must be addressed. We want benefits from lower prices, but we must at the same time ensure the health and viability of the producing industry in Canada. We cannot afford to lose sight of the fact that many thousands of Canadians are dependent upon the producing industry for employment. And we need a healthy industry to ensure energy security for the future.

I will, therefore, be reviewing our current pricing and revenue regime, paying particular attention to the issue of fairness. It is possible that this review may generate some changes to the system. These changes may be only minor adjustments to get rid of the anomalies. It is conceivable, however, that we may require more fundamental adjustments to realize our goals, to achieve a fair national balance.

In undertaking this review, I intend to continue consulting with industry, with producing provinces and with consuming provinces as I have been doing ever since I became Minister of Energy. What I hear from Canadians will help me and my colleagues in the decisions we have to reach. We have some time. Our current

system provides us with an ongoing framework through mid-summer. This should give us the opportunity to discuss, to debate, and to decide. But we must also use the opportunity to find a solution that is acceptable to all parties concerned. As early as July 1 of this year, decisions with regard to our pricing system will be required. Between now and then, I am open, interested and anxious to review our problems with all interested parties.

This government has been, and remains, committed to providing a secure supply of energy to consumers at reasonable prices. Second, and just as important, we want a system that is fair to producers, to investors, to all levels of government across the country, and to all users of energy. I am aware that all of these interests cannot be fully satisfied. All interests must compromise.

Let me now set out four options which Canadians should consider before governments make decisions. I want to be clear that I am cataloguing options which have been discussed in public by various interest groups. The Cabinet has not yet discussed them and I have not even asked my colleagues to do so yet. Before I make recommendations to my colleagues, I want to hear the views of interested parties. I am clearly not in a position to suggest what my reaction would be to any of the options for change to existing policy, other than to say that they should be discussed.

First, as you know, most oil produced in Canada receives a price considerably lower than the international price. This so-called old oil price is limited by a cap of 75 per cent of the world price according to the 1981 agreement between the Federal government and the government of Alberta.

In this way, Canadian consumers have enjoyed strong advantages over consumers in most countries. At the same time, regular increases in the price for old oil have strengthened producers' cash flows. However, the decline in world prices recently has produced a situation whereby not only would the price for old oil be capped at 75 per cent by this summer, but where, according to our interpretation of the agreement with Alberta, the price should be rolled back with the resulting benefit to consumers.

The rollback option I am describing would produce great spinoff benefits for nearly all sectors of our economy — for farmers, businessmen, factory operators and airline companies alike.

But there is a downside, and that is the fact that lower prices caused by a rollback would reduce revenues to producers. If this happens, producers may well be less able to pursue further development of Canada's resources, and, in the long-run, this might result in greater dependence on foreign sources of supply.

There is a second option and that involves changes to, or the elimination of, the 75 per cent cap. Alberta's interpretation of the agreement on pricing would prohibit any decrease in the old oil price and would effectively freeze current prices. The consumer would benefit less than from a rollback, but yet would see lower prices at the pumps as certain Federal taxes would be reduced. While I do not necessarily agree with this option, it is legitimate and should be discussed.

A third option, which would increase the cash flow to producers, would be the extension of the world price to more categories of production while still maintaining a redefined old oil category at 75 per cent of the world price.

The fourth and most radical option is that of decontrolling the price of Canadian oil so that domestic prices would be set at world levels. This option would have been unthinkable to me if world prices had continued to rise. To be frank, it presents great political difficulties, since the government is committed to keeping the Canadian price below world price. But this commitment was made in the context of rising world prices, not in the context of the world price coming down towards the level we had contemplated for the Canadian price.

Decontrol in the present context would mean a marginal increase in oil product prices. But it should be recognized that the Canadian price would be going up, however marginally, when prices around the world are coming down, albeit from higher levels. Decontrol would mean more revenues for producers and more revenues for governments to offset against their deficits, but these additional revenues would come from the pockets of consumers and might hurt the competitive position of some of our industries. Decontrol would also mean the dismantling of a highly complex regulatory system.

While I remain to be convinced that decontrol is the preferred option, it is one that should be discussed and debated. But we must not forget our commitment to protect consumers if world prices rise sharply once again. I know that the Opposition in the House of Commons often charges that Canadian oil prices are worse than decontrolled prices—that they are above world levels. And although the point with respect to crude oil is incorrect, it is possible to prove the Opposition's point on prices if you carefully pick the oil product, and the state and province for comparison. The problem here is largely the amount of ad valorem taxes on gasoline imposed by the consuming provinces.

From a political point of view, it is extremely frustrating to establish federal policies designed to give consumers a break, only to have the consuming provinces move in with their retail-level taxes and soak up the advantage we extended to consumers.

In Quebec, the provincial tax is 40 per cent and gasoline at the pumps is 8.3 cents per litre more expensive than in the state of New York. In Ontario, the provincial tax is 20 per cent, and gasoline is 4.6 cents more expensive per litre than in New York.

I am concerned about the fairness of our policy towards producing provinces when provincial governments in consuming provinces take away the benefits to the consumer, and I will have to take this into consideration in my decision on pricing policy.

In summary, I believe I have set out in a very frank way the options facing the government. Normally, major policy options are examined in secret. I hope my initiative will be regarded as a positive contribution towards an important national debate.

I have a further point to make before I finish and this deals with natural gas, since lower oil prices are also causing problems with the domestic price of gas.

Our agreement with Alberta provides for regular increments to the Alberta border price for natural gas every six months, whether or not the price of oil changes. For consumers, the federal government is committed to lowering its excise tax on gas to maintain natural gas prices at 65 per cent of oil. On February 1st, we did this; we dropped our tax almost 30 per cent.

However, with lower oil prices, the Government of Canada alone is running out of room to manoeuvre. It now appears that unless oil prices rise, the federal tax on natural gas will be reduced to zero in the near future. I know that producers, and producing provinces appreciate the importance of keeping gas prices market oriented. Gas prices must be attractive relative to oil, electricity and renewables to protect and expand market share. Many Canadians see natural gas as a serious energy option and we all want to keep it that way.

Producers, consumers, federal and provincial governments all benefit when natural gas maintains and expands its markets in Eastern Canada. It is important to remember that last year gas sales into the Ontario and Quebec markets nearly equalled total export sales. This situation can only be maintained and strengthened as long as the price for natural gas remains attractive relative to the price of oil.

The Government of Canada's options on natural gas pricing are extremely limited at this time. We believe that it is in the interests of all parties that the current regime for establishing the border price for natural gas at Alberta is reviewed. Of course, the implications for government revenues and consumer prices on natural gas are similar to the implications for oil. Consumers would benefit if the price of natural gas were constrained to its current relationship with oil.

Finally, the weakness in world markets has important implications for Canada's position regarding trade in energy. As you know, I took steps this week to help Canada's gas producers sell more gas in the United States. By lowering the export price of gas, from \$US 4.94 per million Btu's to \$4.40 per million Btu's, we have reflected the recent changes in the world oil market.

In so doing, we have made our gas relatively more attractive in the U.S. market, a market that was worth more than \$4.7 billion to Canada last year. We are watching closely market trends in the United States. As a secure and reliable, long-term supplier of gas to the U.S., we want to keep our market share. That is why my officials are now working with the industry and the producing provinces on the concept of an incentive price aimed at maintaining and expanding our markets in the U.S.

At the same time, we know that our American friends recognize that we are willing to do our part, and that we have been very flexible in terms of price. Others must also be flexible. Our gas trade is one of mutual long-term interest. We recognize this, and we are examining future measures to enhance the position of Canadian gas in the U.S. marketplace. However, there are limits to Canada's flexibility. I do not want to see Canada's gas industry jeopardized. It is now up to U.S. importers to do their part, to observe existing contracts with Canadian exporters.

When we look at the question of exports, the importance of maintaining a secure supply of energy for Canadians in the future continues to be our government's overwhelming concern. Nevertheless, I recognize that the development of new sources of supply depends upon access to markets. If availability of Canadian oil and gas exceeds our foreseeable requirements, our options are either to keep the surplus in the ground or look for new markets abroad. Shutting in surplus supplies not only reduces revenue to producers, but it also discourages the development of new sources of supply.

We must find a way to ensure both the viability and continuity of exploration and development and our long-term requirements of Canada for energy. We must protect Canada's national interest. But we also must ensure that we have enough oil and gas for future generations of Canadians. This means we have to have fair access and fair prices for our energy surpluses.

I remain convinced that Canada's so-called problems can be solved. Only through close cooperation — cooperation between us and producer governments, between governments and industry, and between industry and consumers — can we expect to solve the dilemmas that face us today as a result of new international uncertainty and the numerous options that our energy resources open to us.

Thank you.

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Government
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NOTES FOR AN ADDRESS
BY THE HONOURABLE JEAN CHRÉTIEN
MINISTER OF ENERGY, MINES AND RESOURCES
TO THE CANADA/JAPAN BUSINESS CONFERENCE

CHATEAU CHAMPLAIN
MONTRÉAL, QUÉBEC

May 17, 1983



Check against delivery

It is a pleasure for me to be with you today. Since its inception in 1977, the Canada-Japan Business Committee and its Conferences have proven to be a highly effective channel for direct and constructive contact between Canadian and Japanese business leaders. This in turn has made an important contribution to closer and more productive relations between our two countries. I, therefore, take considerable satisfaction from the fact that I was one of the founders of the Committee.

The strong business ties between Canada and Japan were evident during my recent visit to Tokyo. Meeting Japanese ministers and senior members of the Japanese business community certainly confirmed my understanding that the economic relationship between Canada and Japan has entered a new and more mature phase.

Over the past 10 years or so, economic activity between Canada and Japan has increased nearly threefold. Japan has become Canada's second largest trading partner. Last year, trade between our two countries exceeded \$8 billion, with more than half of that total being exported from Canada. In spite of the effects of world-wide recession, which did a great deal of damage to both our countries' economies over the past 18 months, we expect an even better trade picture in 1983.

From our point of view, we derive some satisfaction from the performance of Canada's manufacturing sector, which saw its exports to Japan rise by 33 per cent in 1982. Although still small in comparison to other commodities, exports of fully manufactured goods reached record levels during the year, exceeding \$240 million, and much of this growth can be attributed to Canada's high-technology industries. However, I need hardly remind this group that despite this progress the level of manufactured products imported from Canada by Japan leaves much to be desired.

The Canada Trade Centre in Tokyo, which assists manufacturers in attracting business to Canada, has proven to be one of the most effective promotional instruments for Canada in the Far East today. Over the past four years, it has put on 66 shows, enabling some 320 Canadian manufacturers to take part. As a result, those manufacturers have attracted about \$125 million in extra business to Canada. This is a good start for which those concerned deserve credit.

If there is one common characteristic of Canada's trading relationship with Japan over the years, it is reliability. We as Canadians are proud of our record as suppliers — of foodstuffs, fish, forest products, manufactured goods, and, of course, energy and natural resources. In a great many areas of trade, we have become dependable suppliers of many of the important commodities that Japan requires today. I am confident that our economic partnership will continue to add new dimensions in the future, especially since both our countries are committed to expanding the avenues of trade to take us beyond present trade partners. And this should be facilitated as economic recovery takes hold in Japan and Canada in 1983.

Certainly there is much scope for expanding bilateral economic cooperation, not only in trade but also with respect to investment, technological development and cooperation in third markets. It seems to me that cooperation in third markets has much potential, particularly since it can bring together joint investment and a two-way transfer of technology. One good example in the energy sector is the recently announced Nova-Mitsui project for the construction of a gas pipeline in Malaysia. Perhaps the fact that both companies are members of the Canada-Japan Business Committee is significant. Whatever the case, I understand that the Canadian Export Association has been placing emphasis on third market cooperation and I can assure you that this is endorsed and supported by the Canadian government.

Canada and Japan share a commitment to the principles of free and fair trade. Here, I am pleased to note that, in accordance with the agreements reached in the Tokyo round of trade negotiations, Japan has been taking steps to improve access to its large market by reducing tariffs on a variety of products.

We are equally pleased that Japan has taken steps to reduce non-tariff barriers as well. These steps to liberalize trade should benefit a wide range of Canadian exporters, including makers of such manufactured goods as telecommunications and computer equipment.

To the Canadian business community represented here today, I need hardly remind you that sustained marketing efforts are essential if manufacturers are to succeed in the lucrative Japanese market. Despite the liberalization measures initiated by the Japanese Government, that market remains a complex and difficult one.

As you know, the strongest component of our trading relationship is in energy and natural resources. Indeed, there is only one nation – in all the nations with which Japan now trades – that can provide it with virtually every major energy source. And that's Canada.

Whether it is uranium for nuclear power plants or coal for electrical generation and steel-making sectors, Canada's record is one of a reliable partner and supplier. Down the road we expect to become a major supplier of liquefied natural gas and we continue to cooperate with Japan in its ongoing consideration of the CANDU nuclear option.

Before talking about Canada's strong resource base and its significance to the Japanese economy, I would like to say a few words about the energy policies we as a government have put in place in Canada.

These policies, aimed at addressing energy security, fairness in sharing revenues generated by energy resources, and a strong role for Canadians in future energy development, are now firmly in place. Canadians continue to support these goals, and I do not foresee fundamental changes to them.

The energy world, as we know it, has changed over the past two years. The world oil price, which increased dramatically during the 1970s, is not today what any of us expected. As a result, Canada — like most energy-producing nations — must re-examine some of the pricing arrangements we established when the future looked quite different. Accordingly, we are reviewing our current pricing and fiscal regime, in consultation with producing and consuming provinces.

My personal goal, since I became Canada's Energy Minister eight months ago, is to make our policies and programs work efficiently; to provide for a stable environment for the industry; to improve on what we have in place, and not to add unexpected dimensions to the goals Canadians have set for themselves. I might add here that we are gratified that Japan has demonstrated an understanding of these energy goals.

One aspect of our policy, as you know, is to encourage greater Canadian participation in our energy sector. It is common knowledge that when we began writing a new chapter in Canadian energy policy in 1980, ownership and control of much of Canada's energy industry was in foreign hands. We wanted then, and now, to create conditions in which our own people can take their rightful place in developing Canada's energy future. Progress has been made on that front. Today, a greater percentage of Canada's energy industry is in the hands of Canadians.

This being said, I want to assure foreign investors that they continue to be welcomed as partners in Canada's energy development and in the inevitable sharing of risks and returns which characterize major resource projects. During the last decade, our Japanese friends have been among those who have invested in the Canadian energy sector. I have every expectation that this investment will continue to bring significant benefit to both Japan and Canada and, of course, to the companies involved.

We will both benefit by the contribution of direct Japanese investment in the development of Canadian energy resources, and in the development of the technology to extract and process those resources in the most efficient way possible. Certainly, Japanese investment in oil exploration in the Arctic, and Japanese technological collaboration and investment in oil sands development have been received positively by Canadians. There has also been productive joint investment in coal and uranium, and there are excellent prospects in relation to liquefied natural gas.

We will certainly continue our efforts towards the goal of energy security. The lessons we have learned from world energy events of the last 10 years are clear: no country can allow itself to remain as vulnerable as we all were in the past. Canada will therefore continue to aim for energy security, taking advantage of the various energy sources in our country.

Fortunately, as the experts will tell you, geological prospects in our frontier areas are extremely promising. Moreover, we believe that our fiscal and incentives arrangements, particularly in Canada's northern frontiers and offshore areas such as the Beaufort Sea and East Coast, are among the most attractive in the world.

During the past year, we have signed over \$3 billion worth of exploration agreements for the Canada Lands with foreign and Canadian companies. I was also pleased to announce yesterday in Calgary that a new 7,000 barrel per day oil sands plant will be constructed at Wolf Lake in Alberta, with the help of tax relief from the Government of Canada, and royalty relief from the Alberta government.

I am also pleased to note that the NEB has recently approved for the first time the export of Canadian light crude oil to Japan. While these particular shipments were approved because of Canada's current short-term surplus, I look forward to the day when we will be able to consider exporting any quantities that exceed our domestic needs.

For a country such as Japan, where energy imports must inevitably remain a fact of life, it is obvious that efforts to diversify, and to seek supplies from the most secure sources over the long term, will continue to be important. In this regard Canada has established itself as a reliable supplier and we intend to build on this base in developing a cooperative energy relationship with Japan.

It is no secret that Japan's imports of Canadian resources — such as coal from British Columbia — make a significant contribution to the Canadian economy.

In the case of coal, for example, Japan has become our largest export customer. In 1982, we exported about \$850 million worth of coal — an increase of about 25 per cent over 1981. Still, the coal market — like other commodity markets — is going through a difficult period at this time. It is in such times that we look to our Japanese friends to ensure that Canadian suppliers are treated fairly, taking into account their responsible attitude when the market was much tighter than it is today.

In doing our part, the Government of Canada, and the Province of British Columbia, are committed to spending hundreds of millions of dollars on the infrastructure that will take Canadian coal from northeast British Columbia to market through a new port at Prince Rupert. And Canadians are now at work building rail links, port facilities and mine structures in large part dedicated to serving the Japanese market. These will be completed later this year — on time and on budget.

But, if we are to justify the investment and ensure the viability of major coal developments in western Canada, long-term and reliable contracts with Japan are essential, just as they are essential to Japan to ensure stable supply.

Another resource of potential importance to Canada and Japan is that of liquefied natural gas, or LNG.

As you know, with large new additions of natural gas reserves added each year, Canada now has major production potential. Recently, our National Energy Board confirmed that we have sufficient gas to meet our foreseeable domestic requirements to permit additional exports. For the first time in our 30-year history of exporting natural gas, the Board has authorized the sale of gas to a country other than the United States. And that country is Japan.

I welcome the fact that the Japanese and Canadians have joined together in the Western Liquefied Natural Gas Project, which is an exciting and imaginative proposal to ship LNG by tanker from northern British Columbia to Japan. The Western LNG Project offers prospects for an important gas trade relationship between our two countries. I encourage all those involved in the project to continue to work toward project completion.

In this connection, I would stress that the Government of Canada has approved an export licence which permits the export of 2.3 trillion cubic feet over a 15-year period beginning in 1986. In addition the National Energy Board has set aside, pending future approval, sufficient volumes of Canadian gas reserves to allow the project to operate over an additional five years. Certainly a number of matters must be resolved – including public hearings on the facilities the project will require in Canada – before construction can actually begin. However, this is normal procedure for a project of this magnitude. When the project begins, not only will western Canadian LNG provide a secure energy source for Japan, but it will provide market diversification and industrial benefits for Canada.

For Japan, an important aspect of policies to advance energy security is the part to be played by nuclear energy.

Last month, after my visit to Tokyo, I participated at the opening of the Wolsung Canadian nuclear generating unit in South Korea. This represented another major success for CANDU, which was followed closely this month by the commissioning of another CANDU reactor in Argentina.

Wolsung is a matter of particular pride for us because it was built with maximum efficiency, completed on time, and within budget. Atomic Energy of Canada Ltd., Canadian nuclear industry suppliers and the South Koreans all worked together to put this reactor on stream. I am pleased to say that it is operating at 100 per cent capacity.

Canadians are proud of our CANDU technology. The market for nuclear reactors is a competitive one, and customers can drive hard bargains. But Canadians have resisted every temptation to cut corners in this environment and have produced a safe, quality product at a highly competitive price.

Certainly, the performance of existing Canadian nuclear reactors ranks among the best in the world. Of the world's 153 reactors over 500 megawatts in operation last year, seven of the top 10 performers were CANDUs. And it is important to remember that, in the CANDU's 30-year history, there has not been a single, nuclear-related accident. That is quite a nuclear success story!

We are encouraged by Japan's ongoing study of CANDU technology since we know that the CANDU can compare favourably with any reactor in the world. Naturally, we would like to see Japan diversify its existing nuclear capacity by adding the CANDU to its nuclear generating inventory. The introduction of the CANDU system into Japan would strengthen further our relationship in an area in which our technological competence has gained respect world-wide. I am sure the studies now underway will demonstrate that CANDU is competitive in every sense with other reactor systems and that it could contribute positively to Japan's nuclear energy strategy.

Of relevance to the CANDU option is the fact that Canada has been a reliable uranium supplier to Japan for the past 17 years. Indeed, Japan looks to Canada for almost one-third of its total uranium requirements.

In all our energy dealings – whether they involve coal, LNG, or uranium – the future development of our energy and trade relations will depend upon a mutual appreciation of interests and aspirations. For our part, we recognize Japan's interest in diversity and security of supply. In approaching new energy endeavours, we must both be conscious that changing economic circumstances entail risks that must be equitably shared. Moreover, the ability to build stable relationships will depend upon the willingness of both sides to honour long-term commitments.

All this points to the continued development of a strong and cooperative energy relationship between Canada and Japan, despite some of today's market-related problems. We, for our part, hope that this relationship can be strengthened in the years ahead and we look forward to working with our Japanese partners to this end.

Thank you.

83/128



NOTES FOR A SPEECH
BY
HONOURABLE JEAN CHRÉTIEN
MINISTER OF ENERGY, MINES AND RESOURCES
TO THE
OTTAWA CENTRE LIBERAL ASSOCIATION
ST. ANTHONY'S SOCCER CLUB
523 ARLINGTON STREET
OTTAWA

MONDAY, NOVEMBER 28, 1983

8:00 p.m.

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8 p.m. EST

I am pleased to be here to speak on behalf of John Evans who is my Member of Parliament. Tonight I will speak about some of the differences between Liberal policies and Tory policies. In particular, I want to speak about energy policy.

It has been difficult since Brian Mulroney's election as leader of the Tory Party to learn about his policies. Being fair-minded, I decided to give him a chance. I have waited in the House of Commons to find out what he stands for. I am still waiting. After several months of his leadership, it is about time for him to take a serious stand on the issues.

Mr. Mulroney began to take what resembles a stand when he made a speech on energy policy in Calgary two weeks ago. It is my duty as Minister of Energy to respond to that speech. What, then, did Mr. Mulroney have to say?

First, he compared the National Energy Policy to "a hold-up at the corner gas station at 3:00 a.m." He may not like a program passed by Parliament; his Party may have opposed it; but surely it is treating Parliament with contempt to compare a vote in Parliament to a hold-up at a corner gas station.

Second, Mr. Mulroney said that "the cash flow of the oil companies was gravely impaired by the federal tax grab" and he spoke of the "crippling burden of an avalanche of new taxes." He does not know what he is talking about. What are the facts?

The oil and gas industry now gets about 52 per cent of energy revenues compared to a historic share of 46 per cent in 1978 or 41 per cent in 1979 when the Tories were in power.

So in terms of revenue shares, I think the industry is getting fair treatment. In terms of dollars, industry revenues were \$4.5 billion in 1979. This year, after three years of the NEP, the industry saw revenues of \$11.7 billion — two and one-half times 1979 levels. Moreover, industry netbacks, an indication of return on investment per barrel of oil produced, are also very favourable. For new oil, these are estimated to be \$13.25 per barrel for this year compared to \$6.51 per barrel in 1979.

I am not saying this is too much money for the industry — it is a fair share. Indeed, I think that the current 20 per cent federal share, up from only 7 per cent in 1979, is fair for all Canadians. But the Opposition continues to argue that federal taxes are excessive. How much more would Mr. Mulroney give to the oil and gas industry? Would he abandon federal revenues and thereby increase the deficit? Or would he find the money to benefit the oil and gas industry by reducing social programs? It is his duty to tell Canadians what he would do.

Third, Mr. Mulroney said that our policies have discouraged investment. What are the facts? He could have checked with Oilweek Magazine of October 24, 1983 before he made his speech. He would have found that petroleum exploration and development expenditures in Canada will total \$5.6 billion in 1983 – a record level, and more than 70 per cent higher than the industry investment in exploration and development under the Tories in 1979.

Fourth, Mr. Mulroney said that "few Canadians realize that our oil production is now declining at a rate of 30 000 barrels per year." What are the facts? The facts show that he does not know what he is talking about. According to Oilweek Magazine, production of crude oil will show a gain this year. Crude oil production will climb 3.4 per cent and conventional crude oil by 2.4 per cent from a year ago.

Fifth, Mr. Mulroney said: "The federal government instructed Petro-Canada to spend billions buying up companies." Here Mr. Mulroney is on the right track. This government created and expanded Petro-Canada and we have made it the fifth largest oil company in Canada. And we do not apologize. Canadians are proud of Petro-Canada. It's ours!

It is a company that is strong enough to serve our interests in every sector of the industry – by investing in refining and upgrading equipment in Montreal; exploring for conventional oil and gas across western Canada; studying oilsands development possibilities in Alberta; participating in natural gas development projects in British Columbia; and by being involved in every oil and gas discovery on the East Coast in the last five years – including Hibernia and Venture. And just last week Petro-Canada announced a major discovery of conventional oil in Alberta.

What would Mr. Mulroney do to Petro-Canada? Will he destroy it? Will he sell it? Will he keep it? What are the Tory policies? He wrote a book, Where I stand; but I challenge Canadians to try to find out where he stands. You won't find it in the book.

Sixth, Mr. Mulroney has told us that he would get rid "of the confiscatory and punitive provisions of the NEP." I presume that he is speaking of the 25 per cent Crown Share whereby the people of Canada will be able to share in developments of oil and gas in, for example, Hibernia and Venture. What are the facts? It is no more confiscatory or punitive to apply the Crown share to existing discoveries such as Hibernia or Venture than it is to introduce new taxes on existing production. Of course that is what governments around the world have done since the 1960s – in Great Britain, the United States and even Tory Alberta.

All Mr. Mulroney is trying to do is please his American friends in the big multinationals. But, if to do so, he tries to abolish the 25 per cent Crown Share, how will he please Mr. Peckford who wants a 40 per cent Newfoundland Crown Share on Hibernia? How will he please Premier Buchanan who wants Parliament right now to exercise the Crown Share on Venture so that Nova Scotia gets its part?

Seventh, Mr. Mulroney states that he is in favour of Canadianization, but "the PIP program must be changed to remove discrimination against foreign companies." How can he favour Canadianization and oppose all of the instruments which would bring it about? If Petro-Canada should not buy foreign companies, if the Crown Share should be abolished, if incentives should be given equally to multinational and Canadian companies, what is left?

I cannot help but think that the president of Iron Ore — a subsidiary of a multinational based in Cleveland — was so happy to take his orders from Cleveland that as Prime Minister he would be happy taking his orders from Washington. We as Liberals believe that it is good for Canada and fair to foreign investors for the oil and gas industry to be at least 50 per cent Canadian owned by the end of this decade.

We are making progress. What are the facts? Overall Canadian ownership of petroleum production revenue has increased from 28 per cent in 1980 to 38 per cent in 1983. Most of the progress to date in expanding the role of Canadians in the energy industry has been achieved through private sector initiatives. But the Tories condemn even this because we helped Canadian companies through our Petroleum Incentives Program. Our energy policy has been good for Canadian companies such as Pan Canadian, Norcen, Home, Husky, Bow Valley, Dome Canada, Canterra, Trillium, and new companies such as ATS and Parex, to name a few.

There have been some acquisitions such as Premier Davis' acquisition of 25 per cent of Suncor on behalf of the people of Ontario. Equally important, there have been about 100 private-sector deals where foreign companies have sought Canadian companies to share the costs and potential benefits of Canada Lands exploration. Canadian companies now have the opportunity to participate, and in some cases take the lead, in frontier developments and have the opportunity to earn rights for about 60 per cent of federally administered lands as opposed to 38 per cent in 1980. Canadian companies now have a major presence in the East Coast Offshore.

Foreign companies recognize the benefits of involving Canadian companies and seek their participation. With our PIP program, Canadian companies are now important sources of both capital, and expertise. Thus, both sides to these deals benefit; as does Canada through increased oil and gas exploration and the related economic benefits for Atlantic Canada. The Tories either don't recognize these benefits, or wish to ignore what Canadians want.

Instead of recognizing our PIP program as a positive instrument, needed to help Canadians play a growing role in energy investments, the Tories condemn it as discriminatory. I have argued in the United States and across Canada that there is room for Canadian and foreign investment. I've delivered this message not just in speeches but by working out deals for large energy investments that have involved all types of companies. For example, a proposed \$600 million heavy oil upgrader in Saskatchewan through the co-operative movement; and two projects to extract oil from the tarsands in Alberta — a production plant at Wolf Lake costing \$200 million shared by Petro-Canada and B.P. and a \$300 million expansion plant by Esso at Cold Lake — as well as new investments in the Syncrude oil sands project amounting to \$1.2 billion over the next five years. Our policy is to help Canadian companies, but there is plenty of room for foreign-based companies as well.

Eighth, Mr. Mulroney says that "since 1980, nearly half the drilling rigs in Western Canada have been idled." What are the facts? During the same period of time, the number of rigs working in the United States dropped by more than half from 4530 in 1981 to 1807 in early 1983 — a 60 per cent drop. There was no NEP in the United States. Ronald Reagan did not introduce a "punitive and confiscatory" energy policy.

The reasons for the drop in rig utilization in Canada and the United States are the same and have nothing to do with the NEP. There is a large surplus of natural gas in both countries. Therefore drilling for gas is way down because most companies have more gas than is required to meet contract commitments.

What is important is not how many wells are drilled, but how many oil wells are drilled for it is oil that we need for Canada's future energy security. What Mr. Mulroney does not say or does not know is that 51 per cent more oil wells will be completed in Canada in 1983 than in 1980. This is hardly a condemnation of our policy. The record level of oil drilling in western Canada also reflects the fact that there are opportunities for foreign and domestic investment across Canada.

The facts are that Canadian and foreign-owned companies now have the financial resources to expand Canada's energy sector, and are demonstrating this by pursuing major petroleum investments.

Ninth, Mr. Mulroney says "The federal government has failed to stimulate new markets for natural gas, and in fact, has created an environment in which industrial users have switched to coal and electricity." What are the facts?

Is he aware that I negotiated an agreement with Alberta to maintain the price of natural gas at 65 per cent of the price of crude oil as opposed to 85 per cent under the Tories in 1979? Is he aware of the wide range of programs created under the NEP to help finance conversion to natural gas for individual consumers as well as large industrial users? Is he aware of the \$500 million the federal government is spending to encourage pipeline expansion for natural gas?

It is true that some consumers have chosen to convert from oil to coal or electricity. Many parts of Canada have low-cost, secure and abundant supplies of hydro-electricity or coal. The federal government's policy is to encourage oil substitution but not to dictate the private sector's selection of alternative fuels. Is Mr. Mulroney suggesting that the federal government should discourage Quebecers or Ontarians from using their abundant hydro-electricity, or Cape Bretoners from using coal?

If Mr. Mulroney wants natural gas to compete better with coal or electricity, then he should tell Premier Lougheed to reduce the price he sets for natural gas. Such action by Premier Lougheed would do more to promote the expanded use of natural gas in Canada than all the rhetoric against the NEP.

Then, Mr. Mulroney complains that we have not done enough to export natural gas to the United States. What are the facts? Everything we have done has been done after lengthy consultations with the Alberta government. We reduced the price to \$4.40 per thousand cubic feet, and we have given an incentive price of \$3.40 for volumes above a base quantity. Last month, we again changed another mechanism to measure natural gas sales on a monthly basis rather than on a yearly basis in order to meet the demands of the industry and the governments of Alberta and British Columbia. All that has been done in close consultation with the provinces and the industry.

The reduced level of natural gas exports has not been caused by the policies of the federal government. It has been caused by the simple fact that there is a large surplus of natural gas in the United States and so there is lower demand for our gas. The election of another government in Canada will not change the situation in the United States unless Mr. Mulroney decides to give our gas away to the Americans. I do not believe that Canadian natural gas should be sold cheaper to the United States than to Canadians? Does Mr. Mulroney?

Tenth, Mr. Mulroney said that "the search for new reserves must be given new impetus through a fiscal regime that adequately rewards private initiative and through a marketing environment that allows the optimum level of oil and gas to be sold." What are the facts?

I have already spoken about the fairness of the fiscal regime. I might add that special incentives for enhanced oil recovery were introduced in the last budget. I don't know what Mr. Mulroney's fiscal regime would look like. Does he? As far as adequate rewards and marketing environment are concerned, exploration and development for new oil are given the best reward available – world price.

Every drop of oil produced in Canada is sold because of federal transportation subsidies which permit Maritime refineries to take western Canadian crude and because we now permit the export of heavy oil and of some light crude. What more does Mr. Mulroney want?

Eleventh, Mr. Mulroney has said that "the federal government must back off its debilitating intrusion into exploration management." If he really knew what he was talking about, he would not have made that statement. Does he not believe that the federal government has an obligation to manage the exploration and development of the Canada Lands? We cannot ignore our responsibility for matters such as environmental protection, safety, resource conservation, a minimum level of exploration, and social impacts, including native peoples' rights.

Exploration management is a function of government. No jurisdiction with oil and gas allows for unrestricted and unregulated exploration. The United States has rules and regulations; so does Great Britain; so does Norway; so does Alberta. Why does Mr. Mulroney want the federal government to stop regulating exploration on Canada Lands?

It is interesting that Mr. Mulroney does not refer in any substantive way to oil prices except to criticize the number of grades of oil. He did not say that the large number of grades of oil is determined not by the federal government or the NEP but by the Alberta Petroleum Marketing Commission. If he has a problem with over-regulation, he might want to complain to Premier Lougheed.

Why did Mr. Mulroney not tell us what he would do with oil prices? Is it because Premier Lougheed wants higher prices and Premier Davis lower prices? Why did Mr. Mulroney not tell us what he would do with natural gas prices? Is it because he would again have to choose between Premier Lougheed and Premier Davis, between producers and consumers? He would have to take a stand and he refuses to say where he stands.

Finally, Mr. Mulroney talks of the need for co-operation between the federal government, the provinces and industry and promises to establish a co-operative spirit. He does not need to make such promises. I have already delivered.

Over the past year, I have negotiated changes to our federal-provincial energy agreements with Alberta and Saskatchewan. I have established a close and co-operative relationship with the industry. The Minister of Finance has changed tax rules. I have worked with the industry and the provincial governments to develop a policy on marketing of natural gas in the United States. We have demonstrated a co-operative and flexible approach to achieve common energy goals. Mr. Mulroney should recognize reality and stop the rhetoric.

Tonight, I have set out the facts about our energy policy. I hope that I have demonstrated that with all his smoothness and slickness, Mr. Mulroney just does not know what he is talking about. As Liberals, we often disagreed with Joe Clark's energy policies. But never would he have been as badly prepared and as off base in his facts or as vague in his prescriptions as Brian Mulroney was in Calgary. No wonder John Crosbie was quoted on Friday as saying that the Tories will not tell Canadians what their policies will be. "We're not giving anything away. If you want to find out what the policies are, elect us." Brian Mulroney obviously agrees with Mr. Crosbie. But that is not good enough for Canadians.

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NOTES FOR A SPEECH
BY
THE HONOURABLE JAKE EPP
MEMBER OF PARLIAMENT FOR PROVENCHER AND
MINISTER OF ENERGY, MINES AND RESOURCES CANADA

AT THE
OPENING OF A CEIP OFFICE
KIRKLAND LAKE, ONTARIO

JUNE 26, 1989



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Check against delivery

Distinguished Guests, Ladies and Gentlemen:

I am delighted to be here in Kirkland Lake today for this doubly special occasion. It is doubly special because we open the first Canadian Exploration Incentive Program -- or CEIP -- office and because we hand out the first CEIP cheque to a mining company.

It is fitting that these events should take place in your community. Kirkland Lake emerged because of mining, specifically gold mining, almost 80 years ago. It is one of 15 northern Ontario communities supported primarily, if not totally, by the mining industry.

Since the first major gold discoveries in this area were made, back in 1911, Kirkland Lake has come a long way. It has been one of the most productive gold camps in Canada. To be sure, it has known its share of difficult times. But always, it has been able to bounce back. I applaud and admire the people of this area for the qualities you have demonstrated in the face of economic adversity and uncertainty.

Because of the persistent efforts of people like Eveline Kasner of the Canadian Save the Flow Through Committee and John MacDougall, my Parliamentary Secretary, my Cabinet colleagues and I are very aware of the problems and potential of this area. In response, we have put in place what I believe will be an effective, efficient program -- the Canadian Exploration Incentive Program.

As you know, CEIP has been in operation now for less than six months. It is, I feel, a generous program, offering a 30 per cent cash contribution on \$10 million a year of eligible exploration expenses for each company. Companies may apply for incentives up to five times per year.

Only those exploration expenditures that have been financed through flow-through shares are eligible for CEIP incentives. This reflects the extraordinary impact that flow-through share financing has had on exploration activity.

The proportion of exploration expenditures accounted for by flow-through financing increased from about 9 per cent in 1983 to about 90 per cent in 1987. In 1988, the level was around 70 per cent.

The juniors have been the biggest users of flow-through financing. Over the 15 years prior to 1983, exploration by junior mining companies ranged from \$25 million in poor years to \$150 million in good years. With the ability to flow

through earned depletion, exploration by junior mining companies increased from \$75 million in 1983 to an estimated \$827 million in 1987.

Regrettably, the price of gold has fallen off considerably and the after-effects of the October 1987 stock market collapse linger on, so the amount raised through flow-through financing will be down in 1989. In a free market industry like mining, these are realities that must be faced. CEIP was not designed to shield exploration from market signals, but to smooth out some of the cycles. We recognize that with gold prices where they are now, exploration in a gold mining region will not be at the same level as when gold was \$450 an ounce or higher. Nevertheless, by historical standards, the level of exploration activity throughout the country as a whole is not bad.

The Canadian Exploration Incentive Program is consistent with the aims and principles that were set out in our Mineral and Metal Policy, announced a couple of years ago.

In that document, we declared a non-interventionist but supportive role for the federal government in the mining industry, a role that would encourage a continuing improvement in the competitive position of the private sector. We recognized that mining has contributed enormously to regional economic development, and we pledged that support for mining would be an important element in our strategy to distribute wealth and opportunity more equitably across the country.

We recognized, too, that the mineral and metal industry, and the workers and communities dependent upon it, have always been subject to the vagaries of the economic cycle. As all of you know, mining is a very risky and highly competitive industry. We, therefore, re-affirmed our commitment to work with labour organizations, management, and the provincial and territorial governments to assist workers affected by industry restructuring and to enable mining communities to achieve their full economic potential. Toward this end, a whole range of adjustment programs has been put in place.

It is, of course, too early to comment on the effectiveness of CEIP. However, I would make the point that it was developed after extensive consultations with interested groups and organizations, including the Prospectors and Developers Association, the Mining Association of Canada, the financial community and tax consultants. We also listened to the Canadian Save Flow-Through Committee.

Our goal was to design a program that would help meet the real needs and priorities of explorers and one that would stabilize exploration activity over the market cycles. I believe CEIP does this. It also takes into account the strongly expressed view of industry that we not have a discretionary, bureaucratically driven grant system. And the simplicity of the program makes possible a relatively short turn-around time for payments to companies.

We are very gratified that CEIP has elicited positive feedback from a variety of sources, including this comment which appeared in the Canadian Institute of Mining and Metallurgy (CIMM) Tax Notes: "The exploration industry and the government have carried on, and continue to carry on, a healthy dialogue . . . It is the kind of dialogue which helped bring about CEIP in the first place. The government is to be congratulated for its openness and willingness to listen to the industry . . ."

Business leaders and provincial government officials have made similar comments about the program.

So I feel confident that junior financing, stimulated through CEIP, plus exploration by the senior sector, will ensure adequate, if not spectacular, levels of exploration activity across Canada.

Needless to say, I believe that CEIP has all the marks of a winning program. But it must be communicated and explained to the public if it is going to do the job for which it was established. We in government, but especially those involved in mining, have a vital role to play in ensuring that appropriate signals are communicated to investors about the attractiveness of investing in our mining industry. All of us must work together on a positive note to gain public confidence in the program, as well as in the junior market.

I believe we are making progress here. The uptake on the program thus far has been reasonable. So far 185 mining flow-through share agreements have been filed with my Department, since January 1, 1989. This represents a total amount of \$135 million to be raised for exploration under those agreements.

I expect more flow-through share agreements to be filed as the stock market improves and as the positive message about CEIP gets out to the public.

Of course, improvements in the price of gold or exploration success rate will increase investor receptiveness to the program.

Ladies and gentlemen, we are here today because of the spirit and dedication and hard work of many people. I'm thinking particularly of Eveline Kasner and the Save Flow-Through Committee; of John Larche and the Prospectors and Developers Association; of my highly knowledgeable and committed Parliamentary Secretary, John MacDougall; and of my colleagues, Marcel Masse, my predecessor, and Gerald Merrithew, the former Minister of State (Mines).

I personally am very appreciative of their efforts and those of others who worked with them. They richly deserve our thanks.

To those who will be employed in the CEIP office--seven as of today, and another three to be hired -- I want to express my hope that your work here is satisfying and rewarding and that you meet with much success. I'd like to introduce to you now Mike Neumann, Kirkland Lake CEIP field chief. I am sure that Mike and other CEIP staff members are looking forward to working for and with you in the weeks and months to come.

At this time, on behalf of the Government of Canada, I would like to present this cheque to Mr. Jean-Guy Masse, president of CMP Funds Management, representing CMP Resource Partnership Co., and Mr. Dustin Elford, vice-president of American Reserve Mining Corporation. They will be accepting the cheque on behalf of American Reserve Mining Corporation. This company is conducting work on the Paymaster Project 6 km southeast of Timmins.

My best wishes go with you and all the folks at American Reserve and the people of Kirkland Lake. Thank you.

CANADIAN EXPLORATION INCENTIVE PROGRAM--STATUS REPORT

A summary of CEIP activity across Canada and in the Kirkland Lake office follows.

- ° As of June 16, 1989, Energy, Mines and Resources Canada had received notification of the signing of 185 Flow Through Share Agreements from mining companies; 79 notifications were received in the Kirkland Lake office.
- ° Of 10 applications for CEIP incentives from mining companies totalling \$4.3 million, the Kirkland Lake office has received five for a total of \$2.7 million.
- ° The Kirkland Lake office is now fully operational and has completed five inspections of mine operations, as well as providing preliminary screening of CEIP applications submitted and responding to inquiries on CEIP from the public.
- ° The first CEIP payment will be made at Kirkland Lake June 26, 1989.

CANADIAN EXPLORATION INCENTIVE PROGRAM (CEIP)

The Canadian Exploration Incentive Program is designed to assist the financing of grass-roots mineral exploration and oil and gas exploration through the use of flow-through shares.

CEIP began on January 1, 1989 for mineral exploration and for oil and gas exploration on October 1, 1988.

The program provides up to \$3 million in incentives per corporation or associated group of corporations for each calendar year, based on 30 per cent of eligible expenditures to a ceiling of \$10 million a year. The CEIP incentive rate has been set at 30 per cent until December 31, 1990. After 1990, the incentive rate may be adjusted up or down according to market conditions. The annual expense limit covers the exploration programs of most junior mining and oil and gas companies.

Eligible Expenses

Only exploration expenses incurred under a flow-through share agreement, where the corporation and the investor are at arm's length, are eligible for CEIP. The corporation incurring the exploration expenses under the flow-through share agreement will apply for the incentive and may elect to flow the CEIP to the flow-through share investor. Where the corporation elects to flow out the incentive and the investor is a partnership, then the partnership may apply for the CEIP. Corporations, trusts and individuals will continue to be entitled to earn Mining Exploration Depletion Allowance (MEDA) at 16 2/3 per cent for 1989 on eligible expenses that are not eligible for CEIP incentives.

Expenses eligible for CEIP are those mining exploration expenses described in sub-paragraph 66.1(6)(a)(iii) of the Income Tax Act that are renounced under Subsection 66(12.6) or (12.66) of the Income Tax Act.

For oil and gas exploration, expenses relating to activities which are purely exploratory in nature are eligible for CEIP incentives. For example, expenses relating to a well drilled to determine the existence of an oil and gas accumulation, whether the well subsequently becomes a dry hole or a discovery well, qualify for incentives. On the other hand, expenses relating to wells drilled into a known accumulation do not qualify for incentives.

Annual Expense Limit

A corporation and persons with whom it is associated will have one \$10 million annual expenses limit. This limit applies to both oil and gas and mining exploration expenses.

Administration of the Program

The corporation must have incurred exploration expenses before an application for the incentive payment is made. Applications will be subject to verification and audit.

CEIP has been designed and administered to ensure there are no delays in funding exploration programs via flow-through shares. There is no pre-approval process, which would interfere with companies entering into flow-through share agreements.

CEIP applications are processed by Energy, Mines and Resources Canada through existing EMR offices in Calgary and Weyburn, and regional offices in Vancouver, Kirkland Lake, Val-d'Or, Saint John and St. John's.

EMR consults with industry on all aspects of the implementation, administration and transitional provisions of the program in order to ensure that it functions smoothly and achieves its objectives.



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